CHINA YUCHAI INTERNATIONAL LTD
Form 20-F
April 16, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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)

Phung Khong Fock Thomas

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

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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, 2017, 40,858,290 shares of common stock, par value US$0.10 per share, and one special share, par value US$0.10, were issued and outstanding.

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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	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

(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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CHINA YUCHAI INTERNATIONAL LIMITED

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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 dollar, dollar, US$ or $ are to the United States dollar; all references to Renminbi or RMB Renminbi, the legal tender currency of China; all references to S$ are to the Singapore dollar, the legal tender currency of Singapore; all references to RM are to Ringgit, the legal tender currency of Malaysia. Unless otherwise specified, translation of amounts for the convenience of the reader has been made in this Annual Report (i) from Renminbi to US dollar at the rate of RMB 6.3294 = US$1.00, the rate quoted by the People s Bank of China, or PBOC, on February 28, 2018, (ii) from Singapore dollar to US dollar at the rate of S$1.3231 = 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 February 28, 2018, and (iii) from Ringgit to US dollar at the rate of RM 3.9150 = 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 February 28, 2018. No representation is made that the Renminbi amounts, Singapore dollar amounts or Ringgit amounts could have been, or could be, converted into US dollar 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). 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, 2017, 40,858,290 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 was 40,764,569 as a result of the payment of certain amounts of dividends in the form of shares at the election of shareholders and the issuance of shares pursuant to the exercised share option granted under our Equity Incentive Plan. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 40,764,569 for 2017. As of February 28, 2018, 40,858,290 shares of our Common Stock, and one special share, par value US$0.10 were issued and outstanding.

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

All references to CAAM are to the China Association of Automobile Manufacturers. Unless stated otherwise, all data related to the commercial vehicle market in China in this Annual Report is attributed to CAAM.

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 2018 and beyond to differ materially from those described in any forward-looking statements made by us or on our behalf:

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

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the effects of a weaker than expected recovery in the global economy subject to substantial downside risks including heightened policy uncertainty especially regarding trade policies, tariffs and government regulations, financial market disruptions amid global financial conditions and heightened geopolitical tensions globally, protracted recovery in the Euro Area and the economic effects from a withdrawal of the United Kingdom from the European Union on the overall global economy and our business, operating results and growth rates;

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

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

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

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

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

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

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

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

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

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

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

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

the outbreak of communicable diseases, if not contained, and its potential effects on the operations of the HLGE group and its business in the hospitality industry; and the impact of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics that may affect travel patterns and reduce the number of travelers and tourists to the HLGE group s hospitality operations.

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

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

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Selected Financial Data

The selected consolidated statement of financial position data as of December 31, 2016 and 2017, and the selected consolidated statement of profit or loss data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2015, 2016 and 2017 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, 2013, 2014 and 2015, and the selected consolidated statement of profit or loss data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2013 and 2014 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, 2013, 2014, 2015, 2016 and 2017 have been prepared in conformity with IFRS.

The selected financial information as of and for the years ended December 31, 2015, 2016 and 2017 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto.

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

Following an announcement in February 2005 by the Board of Directors of the Company of its approval of the implementation of our business expansion and diversification plan, we looked for new business opportunities to seek to reduce our financial dependence on Yuchai. As of December 31, 2017, we had a 48.9% interest in the outstanding ordinary shares of HLGE and a 7.7% interest in the outstanding ordinary shares of TCL. As of February 28, 2018, our interest in the outstanding ordinary shares of HLGE and TCL remained unchanged.

Relating to our interest in HLGE:

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

The Trust Shares are accounted for as treasury shares by HLGE as they are issued by HLGE and held by the Trust, which is considered as part of HLGE. As a result, based on the total outstanding ordinary shares of HLGE net of the Trust Shares, our shareholding interest in HLGE is stated as 50.2% for accounting purposes in the Company s consolidated financial statements for the year ended December 31, 2017. However, these Trust Shares are not regarded as treasury shares under the Singapore Companies Act, Chapter 50, and the Trustee has the power, inter alia, to vote or abstain from voting in respect of the Trust Shares at any general meeting of HLGE in its absolute discretion and to waive its right to receive dividends in respect of the Trust Shares as it deems fit. Accordingly, based on the total outstanding ordinary shares of HLGE including the Trust Shares, our shareholding interest in HLGE is 48.9% as of December 31, 2017 and February 28, 2018. We consolidate the results of HLGE as a subsidiary. See Note 1.3 to the accompanying consolidated financial statements in Item 18.

Relating to our interest in TCL:

Since fiscal year 2010, we have gradually reduced our total shareholding in TCL. Our total shareholding interest in TCL was 7.7% as of December 31, 2017 and February 28, 2018. We classify our shareholding in TCL as held for trading investment.

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

	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2017 US$[1]
			Year ended December 31, (in thousands, except per share data)			
Selected Consolidated Statement of Profit or Loss Data:						
Revenue	15,902,355	16,436,142	13,733,437	13,664,840	16,222,442	2,563,030
Gross profit	3,264,904	3,290,990	2,790,572	2,964,185	3,515,023	555,349
Research and development costs	(468,612)	(494,594)	(506,955)	(588,007)	(608,181)	(96,088)
Other operating income, net	156,352	94,892	19,337	95,355	624,633	98,687
Operating profit	1,402,416	1,292,618	805,180	967,173	1,715,622	271,056
Share of results of associates and joint ventures	(79,086)	(29,755)	(2,691)	(3,612)	10,054	1,589
Profit before tax	1,162,119	1,201,385	686,138	883,878	1,625,237	256,776
Income tax expense	(222,147)	(179,639)	(176,818)	(160,270)	(220,167)	(34,785)
Profit for the year	939,972	1,021,746	509,320	723,608	1,405,070	221,991
Attributable to:						
Equity holders of the parent	700,423	730,280	341,108	515,737	953,922	150,713
Non-controlling interests	239,549	291,466	168,212	207,871	451,148	71,278
Basic and diluted earnings per common share attributable to ordinary equity holders of the parent (RMB/US$ per share)	18.79	19.36	8.81	12.89	23.40	3.70
Profit for the year per share (RMB/US$ per share)	25.22	27.09	13.16	18.08	34.47	5.45
Weighted average number of shares	37,268	37,720	38,712	40,017	40,765	40,765

	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2017 US$[1]
			As of December 31, (in thousands)			
Selected Consolidated Statement of Financial Position Data:						
Working capital [2]	4,333,904	4,925,945	4,366,413	5,272,069	6,603,775	1,043,349
Property, plant and equipment	4,036,163	4,460,842	4,329,544	4,127,185	3,824,018	604,168
Trade and bills receivables	7,437,948	8,113,094	7,178,513	7,057,256	7,031,544	1,110,934
Total assets	19,293,168	18,773,336	18,815,602	18,596,506	21,015,059	3,320,229
Trade and other payables	7,718,488	6,547,296	6,192,190	6,981,815	7,624,496	1,204,616
Short-term interest-bearing loans and borrowings	1,230,981	1,209,001	2,399,195	894,136	1,600,000	252,789
Long-term interest-bearing loans and borrowings	1,028,396	1,077,716	56,509	16,270	26,341	4,162
Non-controlling interests	2,042,592	2,163,382	2,190,452	2,301,978	2,631,714	415,792
Issued capital	1,724,196	1,840,227	1,955,720	2,059,076	2,081,138	328.805
Equity attributable to equity holders of the parent	6,391,573	6,988,432	7,239,617	7,683,834	8,347,562	1,318,855

	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2017 US$[1]
			Year ended December 31, (in thousands)			
Selected Consolidated Statement of Cash Flows Data:						
Net cash provided by operating activities	589,642	535,686	1,686,718	2,276,087	1,370,167	216,477
Net cash (used in)/from investing activities	(553,591)	(523,019)	(25,496)	(572,031)	126,570	19,997
Net cash (used in)/from financing activities	(553,179)	(314,749)	(485,535)	(1,553,986)	280,862	44,374
Effect of foreign currency exchange on cash and cash equivalents	(13,938)	(3,109)	7,332	29,480	(41,189)	(6,507)

Net (decrease)/increase in cash and cash equivalents	(531,066)	(305,191)	1,183,019	179,550	1,736,410	274,341

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(1) The Company s functional currency is US dollar and its reporting currency is Renminbi. The functional currency of Yuchai is Renminbi. Translation of amounts from Renminbi to US dollar is solely for the convenience of the reader. Translation of amounts from Renminbi to US dollar has been made at the rate of RMB 6.3294 = US$1.00, the rate quoted by the People s Bank of China (the PBOC) at the close of business on February 28, 2018. No representation is made that the Renminbi amounts could have been, or could be, converted into US dollar at that rate or at any other rate prevailing on February 28, 2018 or any other date. The rate quoted by the PBOC at the close of business on December 29, 2017 was RMB 6.5342 = US$1.00.

(2) Current assets less current liabilities.

Dividends

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

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

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

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

Any determination by the Company to declare a dividend will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations and other relevant factors. The following table sets forth a five-year summary of dividends we have paid to our shareholders as well as dividends paid to us by Yuchai:

Fiscal Year	Dividend paid by the Company to its shareholders for the fiscal year/ in the fiscal year (per share)	Dividend paid by Yuchai to the Company (1) for the fiscal year /in the fiscal year (in thousands)
2013	US$0.90 (2)(3)	RMB 343,349 (US$54,999) (4)
2014	US$1.20 (5)	RMB 325,278 (6)
2015	US$1.10 (7)	RMB 271,058 (8)
2016	US$0.85 (9)	RMB 318,050(10)
2017	US$0.90 (11)	RMB 234,923(12)

(1) Dividends paid by Yuchai, are declared in Renminbi and paid to us in a mix of US dollar and Renminbi based on the exchange rates at local designated foreign exchange banks on the respective payment dates.

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

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

(4) The dividend declared by Yuchai for fiscal year 2013 was paid to us entirely in US dollar on May 16, 2014. For dividend paid for fiscal year 2013, the exchange rate used was RMB 6.2428 = US$1.00.

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

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(6) The dividend declared by Yuchai for fiscal year 2014 was paid to us on May 29, 2015. For dividend paid for fiscal year 2014, RMB 32.6 million was paid in Renminbi and the remaining RMB 292.7 million was paid in US dollar at an exchange rate of RMB 6.2135 = US$1.00.

(7) On May 22, 2015, we declared a dividend of US$1.10 per ordinary share amounting to a total of US$42.0 million for fiscal year 2014 payable either wholly in cash or new shares at the election of shareholders. Based on the elections by shareholders, the aggregate dividend was paid in the form of approximately US$23.4 million in cash and 1,102,634 ordinary shares.

(8) The dividend declared by Yuchai for fiscal year 2015 was paid to us on May 26, 2016. The dividend paid for fiscal year 2015, RMB27.0 million was paid in Renminbi and the remaining RMB 244.1 million was paid in US dollar at an exchange rate of RMB6.5636=US$1.00.

(9) On May 12, 2016, we declared a dividend of US$0.85 per ordinary share amounting to a total of US$33.4 million for fiscal year 2015 payable either wholly in cash or new shares at the election of shareholders. Based on the elections by shareholders, the aggregate dividend was paid in the form of approximately US$17.8 million in cash and 1,413,760 ordinary shares.

(10) The dividend declared by Yuchai for fiscal year 2016 was paid to us on May 19, 2017. The dividend paid for the fiscal year 2016, RMB 318.0 million was paid in Renminbi.

(11) On May 24, 2017, we declared a dividend of US$0.90 per ordinary share amounting to a total of US$36.6 million for fiscal year 2016 payable either wholly in cash or new shares at the election of shareholders. Based on the elections by shareholders, the aggregate dividend was paid in the form of approximately US$34.7 million in cash and 99,790 ordinary shares.

(12) The dividend declared by Yuchai for fiscal year 2017 has been approved for payment by Yuchai s Board of Directors. It will be paid to us upon the issuance of Yuchai s audited financial statements for fiscal year 2017 and upon the receipt of approval by Yuchai s shareholders.

Historical Exchange Rate Information

On December 29, 2017, the PBOC rate was RMB 6.5342 = US$1.00. On February 28, 2018, the PBOC rate was RMB 6.3294 = US$1.00.

On December 29, 2017, the noon buying rate was RMB 6.5063 = US$1.00. On February 28, 2018, the noon buying rate was RMB 6.3280 = US$1.00.

The following tables set forth certain information concerning exchange rates between Renminbi and US dollar 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 2017	6.6533	6.5712
November 2017	6.6385	6.5967
December 2017	6.6210	6.5063
January 2018	6.5263	6.2841
February 2018	6.3471	6.2649
March 2018	6.3565	6.2685

	Noon Buying Rate (1) (RMB per US$1.00)			
Period	**Period End**	**Average (2)**	**High**	**Low**
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018 (through February 28, 2018)	6.3280	6.3734	6.5263	6.2649

(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 29, 2017 was RMB 6.5342 compared with RMB 6.5063 for the noon buying rate at the end of December 29, 2017.

(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.

As of February 28, 2018, our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 16,360,845 or approximately 40.0%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. Hong Leong Asia controls us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 23.3% 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 16.7% of the outstanding shares of our Common Stock as of February 28, 2018. 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 9,520,251 shares of our Common Stock, as well as the special share. If HL Technology reduces its shareholding to less than 7,290,000 shares of our Common Stock, our Bye-Laws provide that the special share held by HL Technology will cease to carry any rights, and Hong Leong Asia may as a result cease to have control over us. See Item 7. Major Shareholders and Related Party Transactions The Special Share. If HL Technology sells or disposes of all of the shares of our Common Stock, we cannot determine what control arrangements will arise as a result of such sale or disposal (including changes in our management arising therefrom), or assess what effect those control arrangements may have, if any, on our financial condition, results of operations, business, prospects or share price.

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

The market price for our Common Stock may be volatile.

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

- our operating results whether audited or unaudited;
- the public s reaction to our press releases and announcements and our filings with the SEC;
- changes in financial estimates or recommendations by stock market analysts regarding us, our competitors or other companies that investors may deem comparable;
- operating and stock price performance of our competitors or other companies that investors may deem comparable;

political, economic, and social conditions in China;

any negative perceptions about corporate governance or accounting practices at listed companies with significant operations in China;

changes in general economic conditions, especially the effects of a weaker than expected recovery in the global economy in 2017 and beyond subject to substantial downside risks including heightened policy uncertainty especially regarding trade, financial market disruptions amid global financing conditions, and heightened geopolitical tensions globally, protracted recovery in the Euro Area and the economic effects from a withdrawal of the United Kingdom from the European Union and weaker than expected growth in China. See Item 3. Key Information Risk Factors Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy;

future sales of our Common Stock in the public market, or the perception that such sales could occur; or

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

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

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

A non-United States corporation is considered a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the total value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. For this purpose, the total value of our assets generally will be determined by reference to the market price of our shares. We believe that our shares should not be treated as stock of a PFIC for United States federal income tax purposes for the taxable year that ended on December 31, 2017. 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.

If a United States person is treated as owning at least 10% of our shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a United States person is treated as owning (directly, indirectly or constructively) at least 10% of the value or voting power of our Common Stock, such person may be treated as a United States shareholder with respect to each controlled foreign corporation in our group (if any). If our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations (regardless of whether we are or are not treated as a controlled foreign corporation). A United States shareholder of a controlled foreign corporation may be required to annually report and include in its U.S. taxable income its pro rata share of Subpart F income , global intangible low-taxed income and investments in U.S. property by controlled foreign corporations, whether or not we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. A failure to comply with these reporting obligations may subject you to significant monetary penalties and may prevent the statute of limitations with respect to your U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist investors in determining whether any of our non-U.S. subsidiaries are treated as a controlled foreign corporation or whether such investor is treated as a United States shareholder with respect to any of such controlled foreign corporations or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. A United States investor should consult their own advisors regarding the potential application of these rules to its investment in the Common Stock.

Risks relating to our company and our business

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

Our operations and performance depend significantly on worldwide economic conditions. During periods of economic expansion, the demand for trucks, construction machinery and other applications of diesel engines generally increases. Conversely, uncertainty about current global economic conditions or adverse changes in the economy could lead to a significant decline in the diesel engine industry which is generally adversely affected by a decline in demand. According to the World Bank s Global Economic Prospects issued in January 2018, global growth in 2017 increased to 3.0% from 2.4% in 2016, due to a broad-based upturn in more than half of the world s economies.

The world economy is expected to grow moderately by 3.1% in 2018 compared with 3.0% in 2017. However, the World Bank has stated that growth may be uneven between advanced economies and emerging market and developing economies. Growth in advanced economies is projected to slow due to diminishing labor market slack and the gradual unwinding of monetary policy accommodation. The outlook for emerging market and developing economies is expected to be positive in the near-term, while underlying potential growth is likely to decline over the long-term because of slow capital accumulation and productivity growth and less favorable demographic trends. In addition, downside risks such as disorderly financial market movements, adverse effects of rising borrowing costs, escalating trade protectionism and geopolitical risks continue to exist.

Pursuant to a referendum in the United Kingdom on June 23, 2016, the country voted to terminate its membership in the European Union (the EU) and leave the EU. On March 29, 2017, the United Kingdom s prime minister triggered Article 50 of the EU treaty of Lisbon, as a result of which the United Kingdom will officially leave the EU no later than April 2019. There is uncertainty surrounding the future of the United Kingdom and its relationship with the EU, including the terms of an agreement between the United Kingdom and the EU, if any, governing the terms of the United Kingdom s withdrawal. The United Kingdom s withdrawal from the EU may have an unfavorable impact on the economies of the Euro Area and beyond, particularly if other EU member states also decide to withdraw from the EU. According to its Winter European Economic Forecast issued on February 13, 2018, the European Commission anticipates economic recovery in the Eurozone will continue with growth in 2018 forecasted at 4.1% in both 2018 and 2019, up from 3.8% in 2017. However, heightened uncertainty arising from the United Kingdom s commencement of formal negotiations to withdraw from the EU and the key policies to be implemented by U.S. President Donald J. Trump s administration in the United States cast uncertainty on the European Commission s forecast. The current political climate has introduced greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and China. In March 2018, the Trump administration announced import tariffs on steel and aluminum, including imports from China where our operations are primarily located. The effect of this policy, and the possibility and extent of any international trade conflicts, particularly trade conflicts between the U.S. and China, and such conflict s impact, if any, on our business or results of operations is uncertain. In addition, the performance of the Chinese economy affects, to a significant degree, our financial condition, results of operations, business and prospects. For example, the various measures taken by the Chinese government from time to time to regulate economic growth and control inflation have in prior periods, significantly weakened demand for trucks in China, and may have a similar effect in the future. Uncertainty and adverse changes in the Chinese economy could also increase costs associated with developing our products, increase the cost and decrease the availability of potential sources of financing, and increase our exposure to material losses from our investments, any of which could have a material adverse impact on our financial condition and operating results.

According to the National Bureau of Statistics, China s economy grew by 6.9% in 2017. Although the growth slowdown in China continues to be gradual in response to the Chinese government s planned reform of the economy, there are downside risks to growth. The main short-term risk is the unwinding of high leverage in sectors with excess capacity, namely the manufacturing, industrial and real estate sectors. This may result in a sharper-than-expected slowdown in investment and hence in aggregate demand. There have been increasing concerns over China s current debt levels which continue to trend upwards despite decelerating credit growth which has resulted in fears over possible defaults by local banks, corporate entities including state-owned enterprises and local provincial governments. On March 5, 2016, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China for the next five years from 2016 to 2020 to a range of 6.5% to 7.0% conceding that there were many challenges ahead including growing downward pressures on China s economy. The 13th Five Year Plan covering the years 2016 to 2020 was also formerly approved at the annual legislative session. The 13th Five Year Plan is predicated on an average annual growth of 6.5% which is required in order to achieve the government s goal of doubling per capita income by 2020 over 2010. On March 5, 2017, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China in 2017 to 6.5% citing increased uncertainties, challenges and instabilities both in and outside of China. On March 5, 2018, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the growth target for China in 2018 would remain unchanged at 6.5%. The business and prospects for the diesel engine industry, and thus the business and prospects of our company, may be adversely affected by changes in Chinese government policies.

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

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

Our business is dependent on the state of the commercial vehicle market in China. According to CAAM, the sales of commercial vehicles have experienced fluctuations over the years primarily as a result of government incentives and subsidies introduced from time to time as well as the replacement cycle of commercial vehicles. In 2015, sales of commercial vehicles declined (excluding gasoline- powered and electric powered-vehicles) by 14.4% compared to 2014 to 2.5 million units. In 2016, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 2.7 million units, an increase of 8.3% compared with 2015, primarily due to an increase of 11.6% in the truck market as stricter enforcement of anti-overloading regulations resulted in higher sales, which was partially offset by a 9.9% decline in sales in the bus segment compared with 2015. In 2017, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 3.1 million units, an increase of 16.9% compared with 2016, primarily due to an increase of 19.5% in the truck market as stricter enforcement of anti-overloading regulations and increasing demand in logistics services resulted in higher sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1% compared with 2016. The Chinese government introduced generous incentives to encourage purchases of electric-powered vehicles to curb air pollution in the major cities, resulting in increased sales of electric-powered commercial vehicle, particularly in the light-duty engine vehicles segment. As a result of these initiatives, bus engine sales volume in China and our share of the bus market have gradually decreased. For more details, see Increasing demand for electric vehicles may lead to decreases in demand for our engines affecting our market share and profitability and Item 5. Operating and Financial Review and Prospects Overview.

In recent years, the policies of the Chinese government have encouraged energy conservation and emissions reduction. On August 11, 2013, the Chinese government released a guideline titled Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries. According to the guideline, the government planned to upgrade the environmental sector to a key industry by 2015 and fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On April 24, 2014, proposed amendments to the 1989 Environmental Protection Law were passed by China s Standing Committee of the National People s Congress. The new amendments which came into effect on January 1, 2015 provide for increased fines against polluting companies, detention of negligent executives, protection for whistleblowers and penalties for officials who fail to enforce laws. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014 -2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. Premier Li Keqiang in his 2017 annual policy report acknowledged the continued concerns over environmental pollution and stated that the Chinese government would increase the pace of progress to improve the environment, especially air quality. The measures to be adopted include tackling the sources of pollution in key industries, strengthening control over exhaust emitted by motor vehicles through the prohibition of use of higher emission vehicles, improving the quality of fuel and promoting the use of clean energy vehicles and the strict enforcement of environment laws and regulations. China s 13th Five Year Plan covering the years 2016 to 2020, which was formerly adopted at the National People s Congress in Beijing in March 2016 seeks to reduce energy consumption by 15% and carbon emissions by 18% by 2020. In addition, green and low-carbon industry systems will be set up, the use of new energy vehicles will be promoted and the industrialization level of electric cars improved. On March 11, 2016, China s Environment Minister announced a set of major reforms of China s environmental management and governance system to strengthen enforcement of related environmental protection laws. The reforms which will be phased in on a pilot basis in 17 provinces and autonomous regions, will be completed nationwide in 2018. As part of the reforms, in 2016, the State Council dispatched central environmental inspection teams made up of ministerial level officials to 15 provincial areas, including Beijing, Shanghai and Guangzhou, to monitor local conditions and encourage provincial governments to fulfill their environmental protection responsibilities, resulting in disciplinary actions against a number of government officials and the imposition of fines for environmental violations. Such central environmental inspections are intended to cover all provinces, autonomous regions and municipalities by the end of 2017. In addition, in February 2017, China s Environment Minister announced a month-long special inspection on air quality across Beijing and Tianjin municipalities and Hebei, Shanxi, Shandong and Henan provinces to check on the implementation of pollution control measures by both local governments and companies. On April 10, 2017, the Ministry of Environmental Protection issued its 13th Five-Year Plan for National Environmental Protection Standards. The Plan calls for the amendment of existing environmental protection standards and the implementation of new environmental protection standards, including in relation to air quality and pollution emission control, environment detection and basic environment standards and environmental management standards.

Although a series of policy and reform measures have been formulated to create a sustainable environment for the rapid growth of the energy saving and environmental protection industry, there is no assurance that these measures will be successful. We cannot assure you that the Chinese government will not change its policies in the future. Such policy changes may de-emphasize the use of diesel engines and encourage increased use of cleaner energy alternatives, and any such changes will adversely affect our financial condition, results of operations, business or prospects. The government incentive schemes have, from time to time contributed to an increase in our engine sales in the past. However, since government incentive schemes may be changed from time to time, there can be no assurance that sales of our engines will continue to grow at the same rate as in the past or at all.

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

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

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

Recently enacted tariffs on certain imports into the United States and China, and other potential changes to tariff and import/export regulations may have a negative effect on global economic conditions and our business, financial results and financial condition.

On March 8, 2018, the Trump administration implemented new tariffs on imports of steel and aluminum into the United States, although Canada and Mexico are temporarily exempt pending the outcome of certain trade negotiations and there is flexibility for other countries to be exempted at a later date. These tariffs went into effect on March 25, 2018. Further, there has been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties, including threats by the United States to withdraw from certain treaties and other countries signing new trade agreements without U.S. participation. On April 4, 2018, the Chinese government announced a proposal to impose tariffs on over 100 types of imports from the United States to China. In addition, a number of other countries are threatening to impose tariffs on U.S. imports. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the China and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations.

These tariffs have just recently been announced and are subject to a number of uncertainties as they are implemented, including future adjustments and changes in the countries excluded from such tariffs. The ultimate reaction of other countries, and the impact of these tariffs on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade.

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

Although we own 76.4% of the outstanding shares of Yuchai, and believe we have proper legal ownership of our investment and a controlling financial interest in Yuchai, in the event there is a dispute with Yuchai s Chinese shareholders regarding our investment in Yuchai, we may have to rely on the Chinese legal system for remedies. The Chinese legal system may not be as effective as compared to other more developed countries, such as the United States. See Item 3. Key Information Risk Factors Risks relating to China The Chinese legal system embodies uncertainties which could limit the legal protection available to foreign investors. We have, in the past experienced problems from time to time in obtaining assistance and cooperation of Yuchai s Chinese shareholders in the daily management and operation of Yuchai. We have, in the past also experienced problems from time to time in obtaining the assistance and cooperation of the State Holding Company in dealing with other various matters, including the implementation of corporate governance procedures, the payment of dividends, the holding of Yuchai board meetings and the resolution of employee-related matters. Examples of these problems are described elsewhere in this Annual Report. The July 2003 Agreement, the Reorganization Agreement and the Cooperation Agreement are intended to resolve certain issues relating to our share ownership in Yuchai and the continued corporate governance and other difficulties which we have had with respect to Yuchai. As part of the terms of the Reorganization Agreement, Yuchai agreed that it would seek the requisite shareholder approval prior to entering into any material transactions (including any agreements or arrangements with parties related to Yuchai or any of its shareholders) and that it would comply with its governance requirements. Yuchai also acknowledged and affirmed the Company s continued rights as majority shareholder to direct the management and policies of Yuchai through Yuchai s Board of Directors. Yuchai s Articles of Association have been amended and such amended Articles of Association as approved by the Guangxi Department of Commerce on December 2, 2009, entitle the Company to elect nine of Yuchai s thirteen 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.

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

We reported material weaknesses in our internal control over financial reporting as of December 31, 2005 to 2011, and our management concluded that our disclosure controls and procedures and our internal control over financial reporting were not effective for that period. However, since the year ending December 31, 2012, we have not identified any material weaknesses in our internal control over financial reporting. Our management concluded that our disclosure controls and procedures and our internal control over financial reporting were effective as of December 31, 2012 to 2017. See Item 15. Controls and Procedures. Our independent registered public accounting firm has expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2012 to 2017.

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

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

Our sales are concentrated among the Dongfeng Group, which includes Dongfeng Automobile Co., Ltd., one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with Dongfeng Automobile Co., Ltd. In 2017, sales to the Dongfeng Group accounted for 29.8% of our total revenue, of which sales to our two largest customers, Dongfeng Liuzhou Motor Co., Ltd and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co., Ltd. company), accounted for 10.7% and 4.3%, respectively. In 2017, our sales to our top five customers including the Dongfeng Group accounted for 40.1% of our total revenue. Although we consider our relationship with the Dongfeng Group and the other top four customers to be good, the loss of one or more of the companies within the Dongfeng Group as a customer or any one of our other top four customers whether singly or combined together would have a material adverse effect on our financial condition, results of operations, business or prospects.

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

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

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

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

- improvement in competitors products;

- increased production capacity of competitors;

- increased utilization of unused capacity by competitors;
- price competition;
- increased emphasis on new-energy vehicles; and
- consolidations in the diesel engine industry.

In addition, we believe there has been excess capacity in the diesel engine industry in the past from time to time due to fluctuations in market demand. For example, market demand has fluctuated between 2010 and 2017 as a result of, among other things, stimulus measures announced by the Chinese government to counter the effects of the 2008 global financial crisis, investment in capacity expansion by our competitors, the phasing out of Chinese government incentives for car purchases, the introduction of policies to restrict automotive growth in Beijing and other major cities, pre-buying of commercial vehicles prior to the implementation of new emission standards in China and incentives to encourage purchases of electric-powered vehicles. For more details, see Item 5. Operating and Financial Review and Prospects Overview.

Any excess capacity or decrease in demand in the diesel engine industry in the future could lead to a decrease in prices in the diesel engine market and as we and our competitors compete through lower prices, this could adversely impact our revenues, margins and overall profitability. Furthermore, if restrictions and tariffs on the import of motor vehicles and motor vehicle parts into China are reduced, foreign competition could increase significantly. An increase in competition as a result of these various factors operating singly or together may adversely affect our financial condition, results of operations, business or prospects as a result of lower gross margins, higher fixed costs or decreasing market share.

Our long-term business prospects will depend largely upon our ability to develop and introduce new or improved products in response to market demands 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.

In addition, any consolidations or alliances in our industry may result in more competition for us from the resulting larger companies. Concentration within our industry, or other potential moves by our competitors, could improve their competitive position and market share and may exert further pricing pressure on us. Any consolidation or alliances in our industry involving our key suppliers or customers may adversely affect our existing relationships and arrangements with them. The loss of one or more of our key suppliers or customers due to consolidation in our industry or otherwise could have a material adverse effect on our business, financial condition and results of operations.

China vehicle industry is experiencing changes under the Chinese government s latest initiatives to develop energy saving and new energy vehicles. It may lead to decrease in demand for our engines affecting our market share and profitability.

In 2015, China government issued the first ten-year action plan for China to become a leading manufacturing nation, namely Made In China 2025 (MIC 2025), putting forward energy saving and new energy vehicles as one of the key development area in vehicle industry. New energy vehicles are defined as vehicles powered by alternative sources of energy instead of fossil fuel-powered engines, such as the diesel and natural gas engines that we produce. New energy vehicles include hybrid, pure electric vehicles, fuel cell electric vehicles and other alternative energy-powered vehicles.

The Chinese government has introduced generous incentives to encourage purchases of electric-powered vehicles to curb air pollution in major Chinese cities. As a result of these initiatives, bus engine sales volume in China and our share of the bus market have gradually decreased. According to CAAM, the sales of electric-powered commercial vehicle increased by approximately 60.2% in 2016 to 139,060 units compared to 86,813 units in 2015 and it further increased by approximately 26.8% to 176,331 units in 2017. There was a corresponding decrease in sales of other fuel-powered vehicles which has affected our sales of diesel engines.

At the legislative session of the National People s Congress in March 2017, the Chinese government reiterated its push for greater use of new-energy vehicles and encouraged more innovation to accelerate the sector s development. According to the recent Chinese government s Work Report announced at the legislative session of the National People s Congress in March 2018, China will grant a three-year extension of the preferential policy for new energy vehicles and continue to explore the field of new energy vehicles. Since December 2016, China has gradually reduced subsidies for new-energy vehicles and expects to phase out all financial assistance by 2020. The entry of electric-powered vehicles into the commercial vehicle market in China is a relatively new development and is marked by new and changing technologies and evolving government regulation, industry standards and customer preferences, taking into account a variety of factors, for such vehicles compared with fossil fuel-powered vehicles. As such, it is difficult at this early stage of the market s development in China, to predict the growth and demand prospects for such vehicles.

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If the market for electric-powered vehicles continues to develop or develops more quickly than we expect, the additional competition resulted from the growing new energy vehicles development could reduce demand for our engines, which could adversely affect our business, financial condition, results of operations and prospects.

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

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

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

In August 2009, Yuchai reached an agreement with Jirui United Heavy Industry Co., Ltd. (Jirui United), a joint venture of China International Marine Containers Group Ltd, Chery Automobile Co., Ltd. and Shenzhen City Jiusi Investment Management Co., Ltd. to establish Y & C Engine Co., Ltd. (Y&C) to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. The key focus of Y&C is the production of YC6K diesel engines. Production commenced in December 2010. Engine production reached 20,000 units for the first time in 2017, due to strong demand of heavy-duty trucks in China.

On February 19, 2016, we announced that Yuchai had entered into an agreement with MTU Friedrichshafen GmbH (MTU). a subsidiary of Rolls-Royce Power Systems, to set up a 50-50 joint venture, for the production, under license from MTU, of MTU diesel engines in China. The joint venture entity, MTU Yuchai Power Company Limited, was incorporated on January 18, 2017 and is based at Yuchai s primary manufacturing facilities in Yulin. The joint venture will produce MTU Series 4000 diesel engines compliant with Tier-3 emission standards and power outputs ranging from 1,400 to 3,490 kW, primarily for the Chinese off-highway market, in particular for power generation and oil and gas applications. On April 9, 2018, the Joint Venture announced the launch of its first MTU Series 4000 engine produced in China.

In April 2007, Yuchai entered into an Equity Joint Venture Agreement with Zhejiang Geely Holding Group Co., Ltd (Geely) and Zhejiang Yinlun Machinery Company Limited to form two joint venture companies for the development, production and sale of the 4Y20 diesel engine and parts for passenger vehicles. In May 2012, Yuchai exited one joint venture in Zhejiang Province and increased its stake in the second joint venture in Jining, Shandong Province (Jining Yuchai) through a share swap agreement that gave Yuchai a 70% shareholding in Jining Yuchai, with Geely maintaining its 30% shareholding. In September 2014, Yuchai divested its entire 70% shareholding in Jining Yuchai but continued to consolidate the financial results of Jining Yuchai as a result of various contractual arrangements that allowed Yuchai to exercise effective control over Jining Yuchai. In November 2017, Yuchai acquired the entire equity interest in Jining Yuchai from an independent third party pursuant to the irrevocable option to acquire the shares in Jining Yuchai granted to Yuchai. Accordingly, Yuchai continues to consolidate the financial results of Jining Yuchai. See Note 3.1 to the accompanying consolidated financial statements in Item 18. The technology for the 4Y20 diesel engine is entirely owned by Jining Yuchai. In 2014, we recorded an impairment loss of RMB 60 million on the technology development costs relating to the 4Y20 engine platform for the year ended December 31, 2014. In 2015, we recorded a further impairment loss of RMB 26.7 million. No impairment was recorded in 2016 but in 2017, we recorded an impairment loss of RMB 40 million, and as of December 31, 2017, the accumulated impairment loss recorded on intellectual property relating to the 4Y20 technology was RMB 126.7 million. See Item 5. Impairment of long-lived assets, including goodwill and intangible assets.

We have developed natural gas engines to expand our product portfolio. There can be no assurance, however, that these activities will be profitable. Since 2013, Yuchai has produced a full portfolio of natural gas engines to complement its existing suite of diesel engines at its main manufacturing facility at Yulin City, Guangxi Zhuang Autonomous Region. The portfolio comprises natural gas engines for both on-road and off-road applications, all of which are compliant with China s National V emission standards. For example, in January 2016, we announced the launch of an upgraded natural gas engine model compliant with National VI emission standards for on-road applications. In 2018, Yuchai launched four models of gas engines, YCS04N, YCK13N, YCK15N and

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YCA07N, compliant with National VI and Tier 4 emission standards for both on-road and off-road applications. The main applications of Yuchai s natural gas engines are in the bus, truck and power generator sectors. See Item 4. Information on the Company Business Overview Products and Product Development Yuchai Other products and services for more information on Yuchai s natural gas engines.

The development of a sustainable market for natural gas engines in China may be affected by many factors, some of which are beyond our control, including:

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

The technological requirements to comply with National VI standards will require engine manufacturers to deploy significant resources on improving major engine components, systems and after treatment systems, in a relatively short period of time, which could lead to increased costs. Engine suppliers in the industry may face difficulty in implementing the emission upgrades in compliance with National VI emission standards for on-road vehicles.

There can be no assurance, however, that a sustainable market for natural gas vehicles will develop in China or in other countries around the world or that our initiative to increase our market share in the natural gas engine market will be successful or profitable. For example, in 2016, our sales of natural gas engines continued to decline primarily due to increased demand for electric-powered vehicles and a reduction in oil prices. In 2017, the demand for gas engine trucks has seen a recovery due to certain provinces in northern China implementing new policies restricting the running of diesel trucks.

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. For more information on Yuchai s research and development efforts, see Item 4. Information on the Company Business Overview Research and Development.

Our research and development efforts may not be successful and our new products may not address the needs of our current and prospective customers or achieve market acceptance. Moreover, competitors may be in the process of developing technology that could be developed more quickly or eventually become more profitable than our products. If our investments in research and development do not yield new technologies and products that we can successfully market and sell, our business, financial condition and results of operations may be adversely affected.

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

In 2015, Yuchai recorded engine sales of 364,567 units. In 2016, engine sales decreased to 320,424 units, a 12.1% decrease compared with 2015. In 2017, engine sales increased to 367,097 units, a 14.6% increase compared with 2016. We cannot assure you that we will be able to maintain or increase engine sales in the future. For example, we may not be able to maintain or increase our engine sales or revenue commensurate with our increased levels of production capacity. Moreover, our future growth is dependent in large part on factors beyond our control, such as the continued growth and stability of the global and Chinese economies. See Item 3. Key Information Risk Factors Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy. In addition, we cannot assure you that we will be able to properly manage any future growth, including:

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

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

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

We believe that our cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. Financing may not be available to us on acceptable terms or at all. Our ability to obtain external financing is subject to various uncertainties, including our results of operations, financial condition and cash flow, economic, political and other conditions in China, the Chinese government s policies relating to foreign currency borrowings and the condition of the Chinese and international capital markets. For example, China continued to experience a shortage of liquidity in its banking system in 2014 and 2015 causing the Chinese government to reduce its one year lending rate six times from 5.6% on November 21, 2014 to 4.35% on October 23, 2015. In addition, in 2015, the People s Bank of China (the PBOC) continued to lower the reserve requirements to be held by banks in an effort to inject liquidity into the economy in response to deflationary and increasing slowdown pressures. In February 2016, the PBOC announced the lowering of bank reserve requirements from 17.5% to 17% to support the economy at a time of elevated uncertainty in the midst of a persistently sluggish economy. In September 2017, the PBOC further lowered the bank reserve requirements by 0.5% to 1.5% for banks that meet certain lending criteria. A shortage of liquidity in the banking system or any other factor that results in our inability to access capital may adversely affect our business, financial condition, results of operations and prospects.

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

We may use borrowings from time to time to supplement our working capital requirements and to finance our business expansion and diversification plan. A portion of our borrowings may be structured on a floating rate basis and denominated in US dollar, Singapore dollar or Renminbi. In 2013, Yuchai issued the first tranche of RMB-denominated three year unsecured medium-term notes (MTNs) in China amounting to RMB 1.0 billion upon the receipt of approval from NAFMII, at an annual interest rate of 4.69%. The MTNs matured on May 30, 2016. In April and September 2015, Yuchai issued two tranches of ultra short-term bonds (USTB) amounting to a total of RMB 800 million at interest rates of 4.9% and 3.9% which matured on May 9, 2015 and June 13, 2016, respectively. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

In 2015, there were significant reductions in interest rates for bank loans in China. For example, the interest rate varied between 5.6% and 4.35% in 2015 which affected our cost of funding and bill discounting, and our results of operations. In addition, following a period of unusually low interest rates, the U.S. Federal Reserve raised its benchmark interest rate in 2016 and 2017 and may further increase interest rates in the future. Any fluctuations in interest rates, or fluctuations in exchange rates between the Renminbi or Singapore dollar and US dollar, may increase our funding costs or the availability of funding. This could affect our financial condition, results of operations, business or prospects.

Our financial condition, results of operations, business or prospects could also 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 dollar, has been based on rates set by the PBOC. On July 21, 2005, China reformed its foreign exchange regime by moving into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies, such that the Renminbi was no longer pegged to the US dollar. On August 10, 2015, the PBOC introduced a change in the calculation of the Renminbi reference rate cutting its daily reference rate by 1.9 percent, in order to foster greater exchange rate flexibility. On December 1, 2015, the International Monetary Fund (the IMF) announced the inclusion of the Renminbi in the basket of currencies which make up the IMF s Special Drawing Right (SDR). This was the first time in over 15 years that the list of currencies comprising the SDR has been altered recognizing China s gradual integration into the world economy. On October 1, 2016, the Renminbi was officially included into the IMF s SDR alongside the US dollar, the Japanese yen, Euro and the British pound. From December 31, 2013 to December 31, 2017, the Renminbi depreciated about 7.5% against the US dollar. From December 31, 2013 to December 31, 2017, the Singapore dollar depreciated about 5.9% 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 the Renminbi, the Singapore dollar and other currencies could have an adverse effect on our business, financial condition and results of operations.

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

Economic growth in China has, in the past, been accompanied by periods of high inflation. The Chinese government has implemented various policies from time to time to control inflation. For example, the Chinese government has periodically introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies, increases in bank interest rates, and measures to curb inflation, which has resulted in a decrease in the rate of inflation. The global economic crisis resulted in a slowing of the rate of inflation in January 2009 and thereafter into negative territory until November and December 2009 according to the National Bureau of Statistics. According to the National Bureau of Statistics, the annual inflation rate for 2015, 2016 and 2017 was 1.4%, 2.0% and 1.6%, respectively, below the 3.0% target set by the Chinese government. On March 5, 2018, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the annual inflation rate target would be maintained at around 3.0% in 2018, the same inflation target as in 2016 and 2017. An increase in inflation could cause our costs for parts and components, labor costs, raw materials and other operating costs to increase, which would adversely affect our financial condition and results of operations. Recently, concerns have arisen over deflationary pressures in China as a result of weak domestic demand. A prolonged period of deflation may result in falling profits, closure of businesses, shrinking employment and incomes and increasing defaults on loans by companies and individuals, any of which could adversely affect our business, financial condition or results of operations.

We may be adversely affected by environmental regulations

We are subject to Chinese national and local environmental protection regulations which currently impose fees for the discharge of waste substances, require the payment of fines for pollution, and provide for the closure by the Chinese government of any facility that fails to comply with orders requiring us to cease or improve upon certain activities causing environmental damage. Due to the nature of our business, we produce certain amounts of waste water, gas, and solid waste materials during the course of our production.

We believe our environmental protection facilities and systems are adequate for us to comply with the existing national, provincial and local environmental protection regulations. However, Chinese national, provincial or local authorities may impose additional or more stringent regulations which would require additional expenditure on environmental matters or changes in our processes or systems. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and strict enforcement of the standards was implemented nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection announced that all light petrol vehicles, light diesel buses and heavy diesel vehicles used for the purposes of public transportation, environmental sanitation and postal services must comply with National V emission standards from January 1, 2017. All other heavy diesel vehicles and all light diesel vehicles nationwide are required to comply with the National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced the Limits and Measurement Methods for Emissions from Light-Duty Vehicles (CHINA 6) that all light-duty gasoline and diesel-powered vehicles must comply with National VIa emission standards from July 1, 2020 and National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule. Yuchai produces diesel engines compliant with National IV and National V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards and develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier-2 and Tier-3 emission standards nationwide, respectively. Strict enforcement of the Tier-3 emission standards was implemented nationwide on December 1, 2016. The Tier-4 emission standards were implemented in Beijing and Shenzhen on January 1, 2015 and October, 2015, respectively. Yuchai is able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production volumes of such engines but continues to produce such engines solely for export from China. While Yuchai produces diesel engines compliant with the current emission standards in both the off- and on-road markets, Yuchai may be required to increase its research and development expenses in order to meet increasingly stringent emission standards, and there can be no assurance that Yuchai will be able to comply with applicable 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.

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

The amount of our insurance coverage for our buildings and equipment is at cost which could be less than replacement value. The amount of our insurance coverage for our inventory is at book value which could be less than replacement value. In accordance with what we believe is customary practice among industrial equipment manufacturers in China, we insure high risk assets, such as property and equipment and inventory. The amount of our insurance coverage of our facilities and inventory is in line with Chinese market practice but may expose us to risks in the event of a major accident where 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 do not carry business interruption insurance as such coverage is not customary in China. From time to time, we will review the adequacy of our insurance coverage. Nevertheless, 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.

We are dependent on information technology and our systems and infrastructure face certain risks, including cybersecurity risks and data leakage risks.

We are dependent on information technology systems and infrastructure. We cannot be certain that advances in criminal capabilities (including cyber-attacks or cyber intrusions over the internet, malware, computer viruses and the like), discovery of new vulnerabilities or attempts to exploit existing vulnerabilities in our or third-party systems, other data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting our systems or the systems and networks of third parties that access and store sensitive information about us or our customers or suppliers. Cyber threats, such as phishing and trojans, could intrude into our or a third party s network to steal data or to seek sensitive information about us or our customers or suppliers. Any intrusion into our or such third party s network (to the extent attributed to us or perceived to be attributed to us) that results in any breach of security could cause damage to our reputation and adversely impact our business and financial results. A significant failure in security measures could have a material adverse effect on our business, reputation, results of operations and financial condition. Although we seek to implement measures to protect sensitive and confidential client data, there can be no assurance that we would be able to prevent breaches of security.

Risks relating to China

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

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

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

On November 15, 2013, after the closure of the Third Plenum of the 18th Chinese Communist Party Congress, the new Chinese government issued a comprehensive reform document detailing extensive new social and economic policies with the primary aim to restructure and rebalance the economy to a more sustainable model by focusing more on domestic consumption away from investment and export fueled growth. On March 5, 2016, at the National People s Congress in Beijing, the growth target for China for the next five years from 2016 to 2020 was lowered to a range of between 6.5% to 7.0%. On March 5, 2018, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report maintained the growth target for China in 2018 at around 6.5%, the same growth target as 2017, despite higher growth in 2017.

The Chinese government remains committed to pursuing a range of reforms as laid out in its November 2013 reform document and the current leadership is expected to continue implementing new economic and social policies already announced and making further changes to existing policies as it continues to rebalance its economy. The Chinese government has implemented policies to control the rate of economic growth, manage inflation and otherwise regulate economic expansion. As periods of high inflation have accompanied economic growth, the Chinese government has, from time to time introduced industry-specific measures to avoid overheating of certain sectors, such as tightening bank lending policies, increasing bank interest rates, and seeking to curb real estate and stock market speculation and inflation. In recent times, in order to counteract slowing growth and a shortage of liquidity in its banking system, the Chinese government on a number of occasions reduced its one-year lending rate and lowered the reserve requirements to be held by banks in an effort to inject liquidity into the economy in response to deflationary and increasing slowdown pressures. See Item 3. Key Information Risk Factors Risks Relating to Our Company and Our Business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

The Chinese government is undertaking a number of strategic initiatives that may directly or indirectly affect demand for our products. These include the One Belt, One Road initiative to develop a network of railways, highways and other forms of infrastructure in the Eurasian area, the proposed Regional Comprehensive Economic Partnership, which is a proposed free trade agreement, and the establishment of a new development bank to support infrastructure development in the Asia-Pacific region. Further, in view of the increased focus on domestic consumption and services, further initiatives and changes to existing economic and social policies are expected to be announced and implemented by the Chinese government. Although we believe that the economic initiatives, policies, measures and reforms adopted by the Chinese government will continue to have a positive long-term effect on economic development in China and that we will continue to benefit from these policies, measures and reforms, such government actions may, from time to time, be modified or reversed or have an adverse effect on the price of diesel and diesel-using products and the diesel engine market in general. Adverse changes in the Chinese laws, regulations or policies could have a material adverse effect on the overall economic growth of China and infrastructure investment in China. These developments could adversely affect our business, financial condition and results of operations.

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

According to the World Bank s Global Economic Prospects issued in January 2018, global growth in 2017 increased to 3.0% from 2.4% in 2016, due to a broad-based upturn in more than half of the world s economies. According to the World Bank s Global Economic Prospects issued in January 2018, growth in China was estimated to have reached 6.8% in 2017 and is expected to decelerate to 6.4% in 2018 and to an average of 6.3% in 2019 and 2020 reflecting financial sector vulnerabilities, the possibility of increased protectionist policies in advanced economies and rising geopolitical tensions. Reported by the National Bureau of Statistics, China s economy expanded 6.7% in 2016, the slowest rate since 1990. On January 18, 2018, the National Bureau of Statistics reported that, China s GDP growth was 6.9% in 2017, the fastest since 2015 and beating the country s expectation of around 6.5%. Although the growth in China continues to be gradual, downside risks to growth exists. For more information on the Chinese economy, see Item 3. Key Information Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

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

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

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

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

Substantially all of our revenues and operating expenses are generated by our Chinese operating subsidiary, Yuchai, and are denominated in Renminbi, while a portion of our indebtedness is, or in the future may be, denominated in US dollar 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 the capital account are subject to the prior approval of the State Administration for Foreign Exchange, or SAFE. On December 11, 2015, China announced the convertibility of Renminbi on its capital account within a prescribed limit of US$10 million for the free-trade zones of Tianjin, Guangdong and Fujian, an initial step towards the opening of its capital account.

Yuchai, as a foreign invested enterprise, may purchase foreign currency without the approval of SAFE for settlement of current account transactions , including payment of dividends, by providing commercial documents evidencing these transactions. Our Chinese operating subsidiary may also retain foreign exchange in its current account to satisfy foreign currency liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate our Chinese operating subsidiary s ability to purchase and retain foreign currencies in the future. Our Chinese operating subsidiary, therefore, may not be able to obtain sufficient foreign currency to satisfy its foreign currency requirements to pay dividends to us for our use in making any future dividend payments or to satisfy other foreign currency payment requirements. Foreign currency transactions under the capital account and foreign debt account continue to be subject to limitations and require registrations with and reviews from the designated foreign exchange banks and SAFE. This could affect our Chinese operating subsidiary s ability to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. The General Affairs Department of SAFE promulgated circulars in August 2008 and July 2011, pursuant to which, Renminbi converted from capital contribution in foreign currency to a domestic enterprise in China can only be used for the activities that are within the approved business scope of such enterprise and cannot be used for China domestic equity investment, acquisition, giving entrusted loans or repayment of intercompany loans, with limited exceptions. On March 30, 2015, SAFE issued a notice to take effect from June 1, 2015 loosening the explicit prohibition against the use of Renminbi converted from capital contribution in foreign currency for domestic equity investment as set out in its circulars of August 2008 and July 2011. On June 9, 2016, SAFE issued a notice which became effective on the same day, further allowing the use of Renminbi converted from capital contribution in foreign currency to be used for providing loans to affiliated enterprises of foreign invested enterprises. We can give no assurance as to the effect of changes in Renminbi and foreign currency regulations on our business, financial condition and results of operations.

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

We face risks related to health epidemics or outbreaks of communicable diseases. For example, in 2003, several countries, including China, experienced an outbreak of a highly contagious form of atypical pneumonia known as severe acute respiratory syndrome (SARS), which severely restricted the level of economic activity in affected areas and had an adverse impact on the sale of engines, particularly during the second and third quarters in 2003. In 2009, an outbreak of H1N1 flu first occurred in Mexico and quickly spread to other countries, including China. In addition, an infectious strain of influenza known as the H5N1 Avian flu has been reported from time to time in China, Hong Kong, Vietnam, and other parts of Asia. More recently, a new strain of Avian flu (H7N9) was reported in China and a new virus known as the novel coronavirus, NCoV, was reported in the Middle East and other parts of the world. Beginning in 2014, the largest Ebola virus outbreak in history affected numerous countries in West Africa and led to various reported cases of Ebola around the world. Beginning in April 2015, outbreaks of Zika fever caused by the Zika virus were recorded in countries in South and Central America, Mexico and the Caribbean. On February 1, 2016, the World Health Organization (WHO) declared the virus and its suspected link to birth defects to be an international public health emergency. According to the March 2017 situation report of the WHO, no new countries had reported vector-borne Zika virus infections for the first time since February 1, 2017. Although a decline in cases of Zika infection has been reported in some countries, or in parts of some countries, a high level of continuing vigilance is required.

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

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

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies whose shares are publicly traded in the United States, is registered with the U.S. Public Company Accounting Oversight Board (the PCAOB). As a PCAOB registered firm, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with relevant U.S. laws and professional standards. Our auditor engages its China-based affiliate to audit our China entities and China is a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission (the CSRC) and the China Ministry of Finance (the China MoF) to establish a cooperative framework for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the China MoF in the United States and China. However, as of February 28, 2018, the parties had not reached a definitive agreement to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. stock exchanges. During its Standing Advisory Group meeting on November 12th and 13th, 2015, the PCAOB affirmed its commitment to reaching an agreement with the CSRC and the China MoF to conduct inspections in China although the process has proven more difficult than originally anticipated.

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

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

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

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

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

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

Risks relating to our investment in HLGE

The HLGE group operates Copthorne Hotel Cameron Highlands (CHCH), a hotel in Cameron Highlands, Malaysia. As of February 28, 2018, we had a 48.9% shareholding interest in HLGE, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited (the Singapore Exchange). See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan for further information on our investment in HLGE. Set forth below are risks related to our equity interest in HLGE.

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

The HLGE group s financial performance is dependent on the performance of the hotel 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);

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changes to the political, economic, legal or social environments of the countries in which the HLGE group operates (including developments with respect to inflation or deflation, 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 CHCH, where such losses may not be covered by the insurance policies maintained by the HLGE group;

increases in operating costs due to inflation, labor costs (including the impact of unionization), workers compensation and health-care related costs, utility costs, insurance and unanticipated costs such as acts of nature and their consequences;

fluctuations in foreign currencies arising from the HLGE group s various currency exposures;

dependence on leisure travel and tourism;

the outbreak of communicable diseases (see Item 3. Key Information Risk Factors Risks Relating to China Outbreaks of communicable diseases in various parts of China and other countries may materially and adversely affect our business, financial condition and results of operations.); and

adverse effects of a downturn in the hospitality industry.

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

The hospitality business is a regulated business.

The operation of hotels in 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 CHCH. 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 CHCH.

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ITEM 4. INFORMATION ON THE COMPANY

History and Development

The Company

China Yuchai International Limited is a Bermuda holding company established on April 29, 1993 to own a controlling interest in Yuchai. We currently own, through six of our wholly-owned subsidiaries, 76.4% of the outstanding shares of Yuchai. We operate as an exempted company limited by shares under The Companies Act 1981 of Bermuda. Our registered office is located at 2 Clarendon House, Church Street, Hamilton HM11, Bermuda. On March 7, 2008, we registered a branch office of the Company in Singapore, located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581. Our principal operating office is located at 16 Raffles Quay #39-01A, Hong Leong Building, Singapore 048581. Our telephone number is (+65) 6220-8411. Our transfer agent and registrar in the United States is BNY Mellon Shareowner Services, located at 480 Washington Blvd., 29th Floor Jersey City, NJ 07310.

Until August 2002, we were controlled by Diesel Machinery, a company that was 53.0% owned by Hong Leong Asia, through its wholly-owned subsidiary, Hong Leong China. Hong Leong China owns HL Technology which held shares in us through Diesel Machinery. Diesel Machinery was also 47.0% owned by China Everbright Holdings Company Limited, or China Everbright Holdings, through its wholly-owned subsidiary, Coomber. Hong Leong Asia, a company listed on the Singapore Exchange, is part of the Hong Leong Investment group, which was founded in 1941 by the Kwek family of Singapore and remains one of the largest privately-controlled business groups in Southeast Asia. China Everbright Holdings is a state-owned enterprise of China. In 2002, China Everbright Holdings and Coomber gave notice to Diesel Machinery and the other shareholders of Diesel Machinery to effect a liquidation of Diesel Machinery. As a result of the liquidation, Hong Leong Asia acquired the special share through HL Technology which entitles Hong Leong Asia to elect a majority of our directors and also to veto any resolution of our shareholders. China Everbright Holdings sold its shareholding in Coomber, which held shares of our Common Stock, in October 2002 to Goldman Industrial Limited, or Goldman, and China Everbright Holdings is no longer a shareholder of our company. Goldman was a subsidiary of Zhong Lin Development Company Limited, or Zhong Lin, an investment vehicle of the city government of Yulin in Guangxi, China until September 29, 2006 when Zhong Lin sold its shareholding in Goldman to the State Holding Company.

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

To our knowledge, since January 2017, there have not been any public takeover offers by third parties in respect of shares of our Common Stock, nor have we made any public takeover offers in respect of the shares of other companies.

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

- In March 2005, we acquired a 15.0% interest in the capital of TCL through our wholly-owned subsidiary, Venture Delta. Our shareholding in TCL has since changed through various transactions, and as of December 31, 2012, we had a 12.2% interest in the outstanding ordinary shares of TCL, which has further reduced to 7.7% as of December 31, 2013 and has since remained unchanged as of February 28, 2018.

- In February 2006, we acquired debt and equity securities in HLGE through our wholly-owned subsidiaries, Grace Star, and Venture Lewis Limited (Venture Lewis). Our shareholding in HLGE has changed through various transactions and as of December 31, 2012, we had a 48.9% interest in the outstanding ordinary shares of HLGE, which has remained unchanged as of February 28, 2018.

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

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

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

As of February 28, 2018, through our wholly-owned subsidiary, Grace Star, we had a 48.9% shareholding interest in HLGE. The HLGE group is engaged in hospitality and property development activities conducted mainly in Malaysia.

As of February 28, 2018, through our wholly-owned subsidiary, Venture Delta, we had a 7.7% equity interest in TCL. The TCL group invests directly or with co-investors in real estate and other investment opportunities which include property-backed financial instruments.

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

Yuchai

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

Yuchai was founded in 1951 and became a state-owned enterprise in 1959. Prior to 1984, Yuchai was a small producer of low-power diesel engines for agricultural machinery. In 1984, Yuchai introduced the earliest model of its 6105 (YC6J) medium-duty diesel engine for medium-duty trucks. In 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 seven 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.

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

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

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

Reorganization Agreement

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

Subsequent to the execution of the Reorganization Agreement, a number of steps have been taken by the parties thereto towards its implementation. For example, Yuchai s directors and shareholders have confirmed that the amendments to Yuchai s Articles of Association and corporate governance guidelines required to be adopted by Yuchai pursuant to the Reorganization Agreement have been ratified and implemented, and that steps are being taken to have such amendments and guidelines approved by the relevant Chinese authorities. The amended Articles of Association was approved by the Guangxi Department of Commerce on December 2, 2009.

Cooperation Agreement

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

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

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

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

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Business Overview

Emission Standards

The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and strict enforcement of the standards nationwide commenced on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection announced that all light petrol vehicles, light diesel buses, and heavy diesel vehicles used for the purposes of public transportation, environmental sanitation and postal services must comply with National V emission standards from January 1, 2017. All other heavy diesel vehicles and all light diesel vehicles nationwide are required to comply with the National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced the Limits and Measurement Methods for Emissions from Light-Duty Vehicles (CHINA 6) that all light-duty gasoline- and diesel-powered vehicles must comply with National VIa emission standards with effect from July 1, 2020 and all diesel-powered vehicles must comply with National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule.

Yuchai produces diesel engines compliant with National IV and V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier-2 and Tier-3 emission standards nationwide, respectively. Strict enforcement of the Tier-3 emission standards was implemented nationwide on December 1, 2016. The Tier-4 emission standards were implemented in Beijing and Shenzhen on January 1, 2015 and October 1, 2015, respectively. Yuchai is able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production of such engines but continues to produce such engines solely for export from China.

Products and Product Development   Yuchai

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

Yuchai intends to improve its competitiveness across all current engine platforms, including light-, medium- and heavy-duty engines. Yuchai is focusing on higher emission standard engines, which are relatively higher margin products compared to traditional mechanical diesel engines. We have developed and commenced production of these high emission standard engines prior to the implementation dates for such standards in China.

Yuchai is also expanding its production and research and development capabilities in natural gas engines in order to meet the growing demand in the natural gas engine market in China and provide a full range of natural gas engines to complement all of its current diesel engine models. Yuchai is also extending its high horse power marine diesel and power generator engines to cover engines from 16 liters up to 107 liters.

New Products

In 2018, we announced the launch of 14 new engine models compliant with National VI and Tier-4 emission standards for both on-road and off-road applications, which are YCY20, YCY24, YCY30, YCS04, YCS04N, YCS06, YCK05, YCK08, YCK09, YCK11, YCK13, YCK13N, YCK15N AND YCA07N. All these products are under development and are subject to performance testing and trail run at OEM vehicles and machineries, and are expected to be available for commercial delivery early 2019.

(a) The YCY20 engine compliant with National VI emission standards is for use in passenger vehicle, light-duty buses and pick-up trucks. It has a displacement volume of 2.17 liter and a maximum power output of 150 Ps with a maximum torque of 350 N-m.

(b) The YCY24 engine compliant with National VI emission standards is for use in passenger vehicle light-duty buses and pick-up trucks. It has a displacement volume of 2.36 liter and a maximum power output of 150 Ps with a maximum torque of 380 N-m.

(c) The YCY30 engine compliant with National VI emission standards is for use in light-duty buses and trucks. It has a displacement volume of 2.97 liter and a power range of 150-180 Ps with a maximum torque of 460 N-m.

(d) The YCS04 engine compliant with National VI emission standards is for use in light to medium-duty buses and trucks. It has a displacement volume of 4.16 liter and a maximum power output of 180 Ps with a maximum torque of 650 N-m.

(e) The YCS04N natural gas engine compliant with National VI emission standards is for use in light to medium-duty buses and trucks. It has a displacement volume of 4.16 liter and a maximum power output of 118 Ps with a maximum torque of 600 N-m.

(f) The YCS06 engine compliant with National VI emission standards is for use in medium-duty trucks, coaches and buses. It has a displacement volume of 6.23 liter and a maximum power output of 260 Ps with a maximum torque of 1000 N-m.

(g) The YCK05 engine compliant with National VI emission standards is for use in medium-duty trucks, coaches and buses. It has a displacement volume of 5.1 liter and a maximum power output of 230 Ps with a maximum torque of 870 N-m.

(h) The YCK08 engine compliant with National VI emission standards is for use in medium-duty and special purpose trucks, highway coaches and buses. It has a displacement volume of 7.7 liter and a maximum power output of 350 Ps with a maximum torque of 1400 N-m.

(i) The YCK09 engine compliant with National VI emission standards is for use in medium to heavy-duty trucks, highway coaches and buses. It has a displacement volume of 9.41 liter and a maximum power output of 380 Ps with a maximum torque of 1800 N-m.

(j) The YCK11 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, highway coach and buses over 10m. It has a displacement volume of 10.84 liter and a maximum power output of 460 Ps with a maximum torque of 2200 N-m.

(k) The YCK13 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailer, and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 560 Ps with a maximum torque of 2500 N-m.

(l) The YCK13N natural gas engine compliant with National VI emission standards is for use in heavy-duty trucks and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 324 Ps with a maximum torque of 2100 N-m.

(m) The YCK15N natural gas engine compliant with National VI emission standards is for use in heavy-duty trucks and highway coaches. It has a displacement volume of 15.26 liter and a maximum power output of 390 Ps with a maximum torque of 2500 N-m.

(n) The YCA07N natural gas engine compliant with National VI emission standards is for use in medium-duty industrial machinery drive. It has a displacement volume of 6.87 liter and a maximum power output of 191 Ps with a maximum torque of 1000 N-m.

In 2017, Yuchai launched an 8 cylinders YC8CL engine mainly for use by river and coastal general cargo vessels (see Item 4. Information of the Company Business Overview Products and Product Development-Yuchai Existing Diesel Engine Products High Horsepower Marine Diesel Engines and Power Generator Engines.).

In 2016, we announced the launch of four new engine models which are the YC4Y22-50, YC6K13-50, YC6JN-60 and the YCHPS hybrid engine.

(a) The YC4Y22-50 engine compliant with National V emission standards is for use in light-duty buses and pick-up trucks. It has a displacement volume of 2.17 liter and a power range of 120 to 150 hp with a maximum torque of 360 N-m.

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(b) The YC6K13-50 engine compliant with National V emission standards is an upgraded version of the YC6K12 engine series with reinforced engine components. This engine has an increased displacement volume and power range of 490 to 580 hp with maximum torque of 2,550 N-m.

(c) The YC6JN-60 is a natural gas engine compliant with National VI emission standards. The engine is ideal for use in regular and hybrid public transportation buses, highway and tour buses, and various municipal vehicles.

(d) The YCHPS hybrid engine compliant with National V emission standards is the latest design incorporating the YC4EG gas engine with an ISG generator. The system can be operated in buses with hybrid or full electric operating systems with an external plug-in system. The engine is designed for use in seven to ten meter coaches and buses.

Existing Diesel Engine Products

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

	Series
Trucks	YC4D, YC4E, YC4FA, YC4FQ, YC4DN, YC4S, YC6A, YC6J, YC6JN, YC6K, YC6K13, YC6KN, YC6L, YC6MK, YC6MKN, YC6LN.
Bus	YC6MK, YC6MKN, YC6L, YC6J, YC6JN, YC6G, YC6GN, YC6LN, YC6K, YC6KN, YG6A, YC4G, YC4GN, YC4E, YC4EG, YC4D, YC4DN, YC4FA, YC4FQ, YC4S
Construction	YC4A, YC4D, YC4DN, YC4F, YC4G, YC4GN, YC6B, YC6J, YC6JN, YC6G, YC6L, YC6LN, YC6A
Agriculture	YC4A, YC4FA, YC6A, YC6B, YC4D, YC6J, YC6L
Marine	YC4D, YC4F, YC4FA, YC6A/6B, YC6T, YC6TD, YC6C, YC6CL, YC6CD, YC8CL, YC12VC, YC6MK
Generator-Drive	YC4R, YC4FA, YC4F, YC4D, YC6A, YC6G, YC6L, YC6LN, YC6MK, YC6MJ, YC6T, YC6C, YC6CL, YC12VC, YC16VC, YC6MKN, YC6K, YC6KN
Other	YC4W, YC4Y, YC4FB

(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 IV emission standards have resulted in higher customer acceptance resulting in consistent sales demand since 2005.

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

The upgraded YC4A-T-30 engine is designed for agriculture application. This engine improves the heat transfer efficiency of the cooling system by more than 30%, and uses a high pressure injection mechanical in-line pump and exhaust gas recirculation (EGR) technology. It is also compliant with Tier-3 emission standards for off-road applications.

The YC4D engine was launched in the market in 2001 based on YC6A and YC6B engines. The YC4D engine is designed for light trucks and passenger vehicles.

The YC4G engine was primarily based on the YC6G engine and is designed for use in light to medium-duty cargo trucks and buses. The YC4G engine also features low emission characteristics.

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.

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

The YC4D/YC4E engine is a 4-cylinder, four-stroke engine with a rated power ranging from 120 to 180 PS. The YC4D diesel engine was co-developed by Yuchai and Germany FEV, and features lower emission, lower fuel and oil consumption, lower noise, higher reliability, lower price and better upgrading potential. The YC4E series diesel engine was developed on the basis of the YC6G series diesel engine with a displacement of 7.8 liters through stroke-shortening and bore-reducing which maintains advantages over the YC6G series diesel engines and features higher dynamic characteristics, easier operation and maintenance, and is used in high-speed and light-duty vehicles. In addition, the YC4D-T30 engine for the loader, excavator and forklift markets is compliant with Tier-3 emission standards for off-road applications.

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

The YC4EG-50 diesel engine contains a 4.73 liter engine for medium-duty buses and light- and medium-duty highway trucks. It is compliant with National V emission standards.

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

The YC4S engine s upgraded model YC4S-48 was introduced for the high-end, light-truck market. This model targets the mid- and high-end, on-road vehicles with a load capacity between five to eight metric tons. It generates 88 to 110 kW power using a common rail system paired with Exhaust Gas Recirculation (EGR), Diesel Oxidation Catalyst (DOC) and Particulate Oxidation Catalyst (POC) technologies.

In addition, the YC4S-50 upgraded diesel engine has a 3.76 liter engine for use in medium- to heavy-duty trucks and buses. It is compliant with National V emission standards.

The YC4Y22-50 diesel engine has a 2.2 liter engine for use in light-duty trucks and buses. It is compliant with National V emission standards.

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

The YC4FAN-50 natural gas engine is designed to be used in light-duty vehicles. It is compliant with National V emission standards.

(b) Medium-Duty Diesel Engines

YC6J Diesel Engines

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

The hybrid YC6J engine was launched in October 2010 for use in public buses. The YC6J National IV compliant 6.5 liter, 6-cylinder, 132 to 180 kW, 2500 rpm diesel engine uses BOSCH electronic controlled high-pressured common-rail fuel injection technology. These engines are suitable for use in coaches of eight to 11 meters in length.

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

The YC6J engines previously compliant only with National IV emission standards have been upgraded to meet the National V emission standards with improved fuel efficiency and performance. In addition, the YC6J-T30 for the loader, excavator and forklift markets is compliant with Tier-3 emission standards for off-road applications.

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 YC6A and YC6B medium-duty engine which offers improved overall performance compared to the YC6J engine, principally because of greater horsepower, increased reliability and improved acceleration.

The YC6A National IV compliant 6-cylinder, 4-valves, 162 to 225 kW, 2300 rpm 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 IV compliant 7.8 liter, 6-cylinder, 147 to 199 kW, 2000 to 2200 rpm diesel engine uses DELPHI electronic controlled high-pressured common-rail fuel injection technology. Yuchai has also developed variants that use CNG or LNG as fuel, using similar major components. Its main applications are for buses and coaches of 11 to 12 meters in length.

(c) Heavy-Duty Diesel Engines

YC6G Heavy-Duty Diesel Engines

The YC6G heavy-duty engine is a 6-cylinder, four-stroke engine with a rated power ranging from 190 to 270 PS.

6L Heavy-Duty Diesel Engines

The 6L heavy-duty engine is a National IV and V compliant 6-cylinder, four-stroke, turbocharged intercooling engine, with a rated power ranging from 280 to 350 PS. The 6L heavy-duty engine was co-developed with FEV, an independent German-owned engine development institute for big passenger buses.

The YC6L-60 diesel engine is Yuchai s newest engine compliant with National VI emission standards. This engine is a high-end model of the YC6L heavy-duty platform. It has a power range between 177 to 243 kW and is designed for use in buses between ten to 12 meters and trucks that carry loads of between 25 to 40 metric tons. Improvements to the engine include medium cooling exhaust gas recirculation technology, innovative diesel particle filter and efficient SCR technologies.

6MK Heavy-Duty Diesel Engines

The 6MK heavy-duty engine family for heavy-duty trucks and passenger buses was developed based on technologies from USA, Japan and Germany in accordance with FEV procedures. The 6MK engine has adopted the common rail injection system technology to meet with the latest emission requirements and the European forced cooling piston technology. It has a 10.34 liter displacement and power ranging from 300 to 400 PS. The upgraded YC6MK-50 is a 10.3 liter engine for on-road trucks and buses that is compliant with National V emission standards.

YC6MJ Heavy Duty Diesel Engines

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

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YC6K Diesel Engines

The YC6K 6-cylinder diesel engine is National IV and National V compliant, has a capacity of between 10/12/13 liter and is rated at 380 to 550 PS. The components and combustion systems of the engine are developed with the latest technology and are suitable for use in heavy-duty trucks and for coaches exceeding 12 meters in length. The YC6K is the product of a joint venture company which was established in 2009 pursuant to an agreement Yuchai entered into with Jirui United to produce heavy-duty vehicle engines with the displacement range from 10.5 to 14 liter. For more details on the joint venture company, see Item 3. Key Information Risk Factors Risks relating to our company and our business If we are not able to continually improve our existing engine products and develop new engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects may be adversely affected.

YC6K13 Diesel Engine

The YC6K13-50 engine compliant with National V emission standards is an upgraded version of the YC6K12 engine series with reinforced engine components. This engine has an increased displacement volume and power range of 490 to 580 hp with maximum torque of 2,550 N-m.

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

In May 2011, Yuchai commenced construction of a plant at Yuchai s primary manufacturing facilities in Yulin City, Guangxi Zhuang Autonomous Region, 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 to 600 PS 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 to 440kW at 1500 rpm is for power generation, while those rated 290 to 396 kW at 1500 to 1800 rpm are for marine applications and those rated 350 to 540 PS at 1350 rpm are for marine propulsion.

YC6C is a 40 liter, 6-cylinder engine rated at 700 to 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 to 850 kW at 1500 rpm is for power generation and those rated 560 to 680 kW at 1500 rpm are for marine propulsion.

YC6CL is an upgraded version of the YC6C engine with longer piston stroke for better power output and performance. The YC6CL engine is a 54 liter engine rated at 800 to 1200 PS.

YC12VT is derived from the YC6T engines where the V-engine enables the engine to have a compact configuration. The engine is 12 cylinders, 33 liter rated at 538 to 645 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VT is expected to be launched in 2018.

YC12VC is derived from the YC6C engines where the V-engine enables the engine to extend its power output at similar engine platform. The engine is 12 cylinders, 80 liter rated at 1120 to 1800 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VC was commercially launched in the last quarter of 2015.

YC16VC is derived from the YC6C engines where the V-engine enables the engine to extend its power output at similar engine platform. The engine is 16 cylinders, 108 liter rated at 1960 to 2400 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC16VC was commercially launched in late 2016.

YC8CL is an extended version of YC6CL engine, with 8-cylinder in line configuration. YC8CL is an 8 cylinders, 72.8 liter engine rated at 692-1176kW at 750-1000 rpm. The main application is marine propulsion for river trade and costal general cargo vessels. The YC8CL was officially launched in mid-2017.

Other Products and Services

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

(a) YC4W Diesel Engines

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

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(b) YC4Y20 Diesel Engines

YC4Y20 is a 4-cylinder 1.8 to 2.2 liter, rated at 90 to 150 PS engine which has been developed to comply with emission standards. The first generation prototype engine passed emission and performance tests and after some initial delays, the second and third generation prototype YC4Y20 diesel engines are currently undergoing developmental tests. For more details on this joint venture, see Item 3. Key Information Risk Factors Risks relating to our company and our business If we are not able to continually improve our existing engine products and develop new diesel engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects may be adversely affected.

(c) YC4FB Light duty vehicle Diesel Engines

YC4FB is a 4-cylinder 2.488 liter, rated at 90 to 130 PS engine which was developed for light duty vehicle such as light duty bus and pick-up truck applications. The engine was designed to comply with National IV and National V emissions standards with electronic controlled fuel combustion system.

(d) Off-road Engines

We manufacture off-road engines for various applications by modifying the vehicle engine design for specific off-road engine requirements. Since distribution of Tier-2 compliant diesel engines was prohibited in China with effect from October 1, 2015, we have launched various Tier-3 compliant diesel engines for both construction and agricultural applications. The new engines meeting Tier-3 emission standards are:

- the YC6G220L-T31 series with a 7.8 liter engine featuring a turbocharged inter-cooling system and an electronically controlled fuel injection system to enable quick adjustments to the engine s power and torque;

- the YC4FA45-T30 series featuring a mechanical rotary pump, with a faster response and low fuel consumption. This model has been awarded the e-mark certificate allowing for marketing into the European Union;

- the YC6J-T30 and YC4D-T30 models are both upgraded versions of the Tier-2 model with the latest fuel combustion system. The YC6J-T30 engine is a 6.5 liter engine with design output of 92 to 132 kW and has primarily construction and agricultural applications. The YC4D-T30 is a 4.2 liter engine with design output of 58 to 75 kW, and has mainly construction applications for us in loaders, excavator and heavy-duty forklifts.

(e) Natural Gas Engines

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

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

(f) Plug in hybrid engine

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

The YCHPS hybrid engine compliant with National V emission standards is the latest design incorporating the YC4EG gas engine with an ISG generator. The system can be operated in buses with hybrid or full electric operating systems with an external plug-in system. The engine is designed for use in seven to ten meter coaches and buses.

In 2016, Yuchai launched its first plug-in gas hybrid system in China for medium duty-trucks.

(g) Diesel Power Generators

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

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(h) Diesel Engine Parts

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

(i) Remanufacturing Services

Yuchai provides remanufacturing services for and relating to Yuchai s diesel engines and components through its wholly-owned subsidiary, Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (YRC). YRC s factory is located in the Suzhou Industrial Park in Suzhou, Jiangsu Province.

New Energy Products

Yuchai has commenced the development program for new energy products, which included the new generation hybrid engine and electric vehicle components. Since 2010, Yuchai has offered in-house developed hybrid engines, and the latest model was a gas engine plug-in hybrid for truck application.

Sales

In 2017, according to CAAM, engine sales for commercial vehicles (excluding gasoline-powered and electric-powered vehicles) in China was approximately 3.1 million units, an increase of 16.9% compared to 2016. Yuchai s total engine sales in 2017 were 367,097 units, an increase of 14.6% compared with 320,424 units in 2016.

Light-duty engine sales in 2017 was 213,269 units, or 58.1% of total unit sales, which was a decrease of 5.0 percentage points compared to 63.1% in 2016, when light-duty engine sales were 202,168 units. Medium-duty engine sales were 90,445 units, or 24.6% of total unit sales, compared to 2016 where sales were 74,309 units or 23.2% of total unit sales. Heavy-duty engine sales was 62,652 units, or 17.1% of total sales units, compared to 2016 where sales were 43,764 units, or 13.7% of total unit sales.

In 2017, Yuchai sold approximately 26,298 natural gas engine units compared with approximately 17,295 units sold in 2016. The following table sets forth a breakdown of Yuchai s sales by major product category for fiscal years 2015, 2016 and 2017:

	2015			2016			2017		
	Revenue RMB 000	% of Revenue	Unit Sold	Revenue RMB 000	% of Revenue	Unit Sold	Revenue RMB 000	% of Revenue	Unit Sold
Light-duty engines [(1)]	5,319,675	38.9%	241,277	4,929,472	36.2%	202,168	5,335,694	33.0%	213,269
Medium-duty engines [(2)]	3,100,551	22.7%	79,519	3,028,997	22.3%	74,309	3,501,418	21.7%	90,445
Heavy-duty engines [(2)]	2,679,378	19.6%	43,697	2,972,022	21.9%	43,764	4,328,827	26.8%	62,652
Other products and services[(3)]	2,572,327	18.8%	74	2,667,996	19.6%	183	2,999,306	18.5%	731
	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424	16,165,245	100.0%	367,097

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

Production

Yuchai s primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. The principal production land area currently occupies approximately 1.8 million square meters, including an existing production factory for all light-duty, medium-duty and heavy-duty engine models, a new natural gas production facility, a new high horse power marine diesel engine and power generator plant, a new foundry and various testing and supporting facilities. In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd. (Xiamen Yuchai) in Xiamen, Fujian Province, in China. This subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, mainly for 6-cylinder heavy-duty diesel engines. In October 2015, we announced that Yuchai had disposed of its 100% shareholding interest in Xiamen Yuchai. As a result of the disposal, Yuchai s production facilities are now located primarily in Yulin City.

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As of December 31, 2017, Yuchai s total technical production capacity was approximately 596,250 units, same as 2016, based on a 2.5 shift five-day week at 80% utilization rate.

In 2017, we sold 367,096 units, of which 365,266 units were produced at Yuchai s Yulin facility, and the remaining units sold were produced by our joint venture company, third party manufacturers and taken from existing inventory.

The following table sets forth the breakdown of Yuchai s production at the Yulin facility by major product category for the years ended December 31, 2015, 2016 and 2017:

	2015		2016		2017	
	Units	% of Units	Units	% of Units	Units	% of Units
Light-duty engines [1]	210,290	63.2%	183,590	60.6%	209,832	57.4%
Medium-duty engines [2]	76,926	23.1%	76,686	25.3%	98,248	26.9%
Heavy-duty engines [2]	45,551	13.7%	42,387	14.0%	56,918	15.6%
Power generator sets	40	0.0%	380	0.1%	268	0.1%
	332,807	100.0%	303,043	100.0%	365,266	100.0%

(1) Includes passenger car engines.
(2) Includes natural gas engines.

Procurement

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

Engine Block

Yuchai cast and molded more than 410,000 units of engine blocks in 2017 representing a large portion of its engine blocks used in production.

Raw Materials

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

Imports

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

Quality Assurance, Control and Safety

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

Manufacturing Capacity Expansion

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

Research and Development

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. Yuchai s internal development effort focuses primarily on designing new products, improving manufacturing processes and adapting foreign technology to the Chinese market. Yuchai has committed to continually improve the technology of its products by acquiring advanced technology from Chinese research institutes, foreign engine design consulting firms and foreign diesel engine and engine parts manufacturers. In 2015, 2016 and 2017, Yuchai spent approximately RMB 507.0 million, RMB 588.0 million and RMB 608.2 million (US$96.1 million), respectively, on research and development. In 2015, Yuchai s research and development efforts were mainly related to the development of new and existing engine products compliant with National V emission standards for the truck and bus segments, and developing engine products compliant with Tier-3 emission standards for off-road applications. R&D expenses were also incurred on further developing high horsepower marine and power generator engines and upgrading of the YC6C engine series for dual fuel operations. In 2016, Yuchai s research and development efforts were mainly related to the development of new and existing engine products compliant with National V and National VI emission standards for on-road applications, engine products compliant with Tier-4 emission standards for off-road applications and its first plug-in gas hybrid engine compliant with National V emission standards in China for the truck segment. In 2017, Yuchai s research and development efforts were mainly related to the upgrading of existing on-road and off-road products compliant with National V and Tier 3 emission standards and the development of new engine products compliant with forthcoming National VI and Tier 4 emission standards. In 2017, Yuchai also commenced the development of new energy vehicle power systems, including a third-generation hybrid engine and electric vehicle power systems.

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

Future Products

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

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

Sales, Marketing and Services

Sales and Marketing

Yuchai distributes most of its engines directly to auto plants and agents from its primary manufacturing facilities in Yulin City. In addition, Yuchai operates a number of regional offices in major geographic regions in China. With a sales force of approximately 782 persons nationwide in China, Yuchai provides a comprehensive range of services to its customers, including dispatching engineers to provide on-site assistance to major customers in the resolution of technical problems.

Yuchai promotes its products primarily through television commercials, outdoor sign boards, advertisements in newspapers and industry journals. Since 1993, Yuchai has been sponsoring an annual program for its customer service stations with information brochures and customer suggestion cards for the improvement of Yuchai s service. These customer service stations form Yuchai s service and maintenance network. In relation to those engines which are under warranty cover, these customer service stations perform the routine maintenance checks and repairs on end-users diesel engines free of charge to the customers, and the corresponding costs are borne by Yuchai. In relation to those engines when the warranty expires, these customer service stations can continue to serve Yuchai clients at their own choice and costs.

Yuchai believes that its promotional efforts are unique for an automotive component company in China and lead to greater brand name recognition among end-users. Yuchai further believes that it leads its competitors in providing high quality after-sales services by its 2,826 authorized customer service stations in China. The customer service stations are independently owned and are able to provide emergency services to its end-users within a 40-km radius in the central, eastern and southern parts of China.

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

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

Yuchai s sales are concentrated among the Dongfeng Group, one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Group. In 2016, sales to the Dongfeng Group accounted for approximately 26.3% of Yuchai s total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Automobile Co., Ltd., accounted for 13.8%. In 2017, sales to the Dongfeng Group accounted for approximately 29.9% of Yuchai s total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co, Ltd. company), accounted for 15.1%. The Dongfeng Group is also a major competitor of Yuchai. Our sales to our top five customers including sales to the Dongfeng Group accounted for 40.1% of our total revenue in 2017. See Item 4. Information on the Company Business Overview Competition.

Customers orders with Yuchai can be cancelled either by Yuchai or its customers prior to delivery in accordance with the sales contracts. As part of Yuchai s credit procedures to control and manage its trade receivables, Yuchai may hold shipments for delivery if customers credit positions are not satisfactory or if customers have not made payments for earlier deliveries. There can be no assurance that such cost-controlling measures will successfully control Yuchai s trade receivable balance, or that they will not adversely affect the future purchasing decisions of Yuchai s customers. As of December 31, 2016, Yuchai had net trade and bills receivables of RMB 7,055.1 million, representing 53.1% of our consolidated current assets. As of December 31, 2017, Yuchai had net trade and bills receivables of RMB 7,030.2 million (US$1,110.7 million), representing 43.9% of our consolidated current assets.

Export Sales

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

	2015			2016			2017		
	Revenue RMB 000	**% of Revenue**	**Unit Sales**	**Revenue RMB 000**	**% of Revenue**	**Unit Sales**	**Revenue RMB 000**	**% of Revenue**	**Unit Sales**
Total Domestic Sales	13,605,782	99.5%	363,700	13,458,275	99.0%	317,726	16,098,085	99.6%	366,162
Total Direct Export Sales	66,149	0.5%	867	140,212	1.0%	2,698	67,160	0.4%	935
	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424	16,165,245	100.0%	367,097

Most of Yuchai s products that are exported outside of China are sold indirectly through third party distributors who purchase them from Yuchai and resell them on to end-users in subsequent and separate transactions. All of these distributors are separate legal entities in which Yuchai has no equity interest in or control over and Yuchai relies on self-reporting by these distributors in relation to their sales. In 2017, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Cuba, Laos, Russia and India. In 2016, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Myanmar, Philippines, Ghana and Thailand. In 2015, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Myanmar, Cuba, Saudi Arabia and the Philippines.

In February 2014, Yuchai appointed China Automotive Industry Import and Export Co., Ltd., a company based in China, on an exclusive basis for two years to export Yuchai s products into Cuba. The agreement requires China Automotive Industry Import and Export to use best efforts to export more than 1,500 units (whole engines or parts) per year. The agreement was automatically renewed under its terms on February 15, 2016. From March 1, 2017 to February 28, 2018, 934 engines had been sold pursuant to this agreement.

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Customer Service

Yuchai believes that customer service is an important part of maintaining its market competitiveness. In addition to various services provided initially at its sales offices, Yuchai has a nationwide network of authorized service stations in China that provide repair and maintenance services, spare parts, retrofitting services and training to Yuchai s customers. To ensure a consistently high level of service, Yuchai trains the technicians at regional training centers or selected service stations. In addition, Yuchai also owns and operates repair training centers. The costs of any warranty-related services or repairs are borne by Yuchai, and all non-warranty activities are charged to customers. Yuchai s customer service program emphasizes a fast turnaround time on repair requests. As part of this policy, Yuchai supplies authorized service stations with spare parts for repairs and require these service stations to provide on-site assistance at the customer s place of business generally within three to 12 hours, depending on the customer s location.

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

Trademarks

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

Competition

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

Most of Yuchai s major China domestic competitors are either state-owned enterprises or entities controlled by state-owned enterprises. The Dongfeng Group, which is a major competitor of Yuchai and which controls one of Yuchai s largest competitors, is also one of Yuchai s major customers and controls some of Yuchai s other major customers. In 2017, sales to the Dongfeng Group accounted for 29.8% of our total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co. Ltd. company), accounted for 15.0% in total. Our sales to our top five customers including sales to the Dongfeng Group accounted for 40.1% of our total revenue in 2017. Some of Yuchai s competitors have formed joint ventures with, or have technology assistance arrangements with, foreign diesel engine manufacturers or engine design consulting firms, and use foreign technology that is more advanced than Yuchai s technology. Yuchai expects competition to intensify as a result of, among other things, improvements in competitors products, increased production capacity of competitors, increased utilization of unused capacity by competitors and price competition. Yuchai believes production capacity in the diesel engine industry has increased over the years which have further intensified competition. See Item 3. Key Information Risk Factors Risks relating to our company and our business Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.

The ongoing development of full electric vehicles for both the bus and truck markets in China will continue to present a source of competition for Yuchai s engines because of the recent replacement of public transit buses, which have been a major bus engine market for Yuchai in the past, with electric vehicle buses in most cities of China.

The HLGE group

As of February 28, 2018, we had a 48.9% interest in the outstanding ordinary shares of HLGE. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan. HLGE is listed on the Main Board of the Singapore Exchange. HLGE s share price on the Singapore Exchange closed at S$0.52 on February 28, 2018. The core businesses of the HLGE group are that of hospitality operations and property development.

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In October 2017, HLGE completed the disposal of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. to Qingdao Haiyi Jun Zhuo Culture Travel Property Investment Co., Ltd. In November 2017, HLGE completed the disposal of its remaining hotel properties in China through the sale of all its shares in LKN Investment International Pte. Ltd. to an affiliate of Jingrui Holdings Limited. A portion of the proceeds from these disposals were used by the HLGE group to repay its debt obligations to us in the amount of S$68 million under a loan agreement. The original loan amount of S$93 million was granted to HLGE by our wholly-owned subsidiary, Venture Lewis in February 2009 to refinance the outstanding zero coupon unsecured non-convertible bonds previously issued by HLGE and which matured on July 3, 2009. The loan amount was reduced to S$68 million through past repayments by HLGE.

The HLGE group wholly owns a Copthorne hotel in Cameron Highlands (Malaysia). Copthorne Hotel Cameron Highlands comprises 269 guest rooms and suites. It is the only hotel situated at the highest accessible point of Cameron Highlands, Malaysia. Located next to the hotel, is a Tudor-styled resort, where 74 units have been leased by the hotel from the owners of the resort for use by its guests. The resort comprises self-contained low-rise and high-rise apartment suites and each suite is equipped with a living room, a kitchenette and a balcony. To maintain the competitiveness of its hotels, HLGE carries out renovation programs at its hotels from time to time as required.

The HLGE group recorded pre-tax losses for five consecutive fiscal years from 2009 to 2013 and in fiscal year 2015. For fiscal year 2014, the HLGE group recorded a profit mainly due to the acquisition by its wholly-owned subsidiary of the remaining 55% equity interest in Augustland Hotel Sdn Bhd, which owned CHCH. For fiscal year 2016, the HLGE group recorded pre-tax profit. For fiscal year 2017, the HLGE group recorded a profit mainly due to its disposals of (i) the HLGE group s 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. to Qingdao Haiyi Jun Zhuo Culture Travel Property Investment Co Ltd; and (ii) the HLGE group s entire interests in LKN Investment International Pte. Ltd. to an affiliate of Jingrui Holdings Limited. Previously, HLGE s average daily market capitalization has fallen below the minimum threshold of S$40 million resulting in it being placed on the Watch-list of the Singapore Stock Exchange (Watch-list) on June 4, 2014, for failing to comply with the minimum criteria for continued listing. These factors in the past made it difficult for the HLGE group to obtaining financing from financial institutions. On February 26, 2018, HLGE announced that it would apply to the Singapore Stock Exchange for removal from the Watch-list and would further announce the outcome of such application in due course. On March 16, 2018, HLGE announced the proposed conversion of all of its existing issued and outstanding non-redeemable convertible cumulative preference shares into new ordinary shares of HLGE, subject to approval of the holders of such preference shares at a separate class meeting (which approval was obtained on the same day) and the ordinary shareholders of HLGE at an extraordinary general meeting. On April 4, 2018, the Singapore Stock Exchange determined that HLGE met the Singapore Exchange s Listing Manual criteria for exit from the Watch-list and removed HLGE from the Watch-list.

The HLGE group may require additional funds for its core businesses and to invest in future growth opportunities. There is no assurance that the HLGE group would be able to generate sufficient internal funds to finance its growth plans or identify and complete any potential merger and acquisition opportunities to grow its earnings base. Accordingly, the HLGE group may, depending on the cash flow requirements and financial condition, need to raise additional funds by issuing equity or a combination of equity and debt or by entering into strategic relationships or through other arrangements. Any additional equity financing by HLGE may dilute our equity interests in HLGE. Any debt financing may contain restrictive covenants with respect to dividends, future capital raising and other financial and operational matters. Failure to obtain sufficient funds to finance its growth plans may adversely affect the HLGE group s business, financial performance and financial position.

For more information on risks relating to our investment in HLGE, see Item 3. Key Information Risk Factors Risks relating to our investment in HLGE.

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Organizational Structure

The following chart illustrates the organizational structure of the Company and Yuchai as of February 28, 2018 and is based on information generally known to the Company or otherwise disclosed in filings made with the SEC and the Singapore Exchange (see also Item 7. Major Shareholders and Related Party Transactions Major Shareholders). This chart depicts the Company s significant subsidiaries only.

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Regulatory and Related Matters

Governance, Operation and Dissolution of Yuchai

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

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

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

Property, Plant and Equipment

Yuchai s headquarters and primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. Yuchai has the right to use approximately two million square meters of land, which is currently used primarily for the production of diesel engines, natural gas engines and employee housing. The principal production land area for the manufacture of diesel and natural gas engines currently occupies approximately 1.8 million square meters, including the existing production factories for all light-duty, medium-duty and heavy-duty engine models, a new natural gas testing facility, a high horse power marine diesel engine and power generation engine plant, phases one, two and three of a new foundry and various testing and supporting facilities. In addition, Yuchai leases a number of regional sales offices in China. As of December 31, 2015, 2016 and 2017, Yuchai s total production capacity was approximately 577,500 units, 596,250 units and 596,250 units, based on a 2.5 shift five-day week at 80% utilization rate. Yuchai performs periodic maintenance and upgrading of production facilities. Yuchai also commits a significant portion of its annual capital expenditure for maintenance and upgrading to meet safety and production requirements. Yuchai is potentially exposed to varying environmental or natural disaster risks and could experience business interruptions, damage to its facilities and loss of life, all of which could have a material adverse effect on Yuchai s business, financial condition and results of operations. See Item 4. Information on the Company Business Overview Products and Product Development Yuchai Production.

Environmental Matters

China adopted its Environmental Protection Law in 1989, and the State Council and the Ministry of Environmental Protection promulgate regulations as required from time to time. The Environmental Protection Law addresses issues relating to environmental quality, waste disposal and emissions, including air, water and noise emissions. On August 11, 2013, the new Chinese government released a guideline titled Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries. According to the document, the government planned to upgrade the environmental sector to a key industry by 2015 with an expected growth rate of 15% annually. The government announced that it would fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014-2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. On April 24, 2014, proposed amendments to the 1989 Environmental Protection Law were passed by China s Standing Committee of the National People s Congress. The new amendments, which came into effect on January 1, 2015, provide for increased fines against polluting companies, detention of negligent executives, protection for whistleblowers and penalties for officials who fail to enforce laws. Premier Li Keqiang in his 2017 annual policy report acknowledged the continued concerns over environmental pollution and stated that the Chinese government would increase the pace of progress to improve the environment, especially air quality. The measures to be adopted include tackling the sources of pollution in key industries, strengthening control over exhaust emitted by motor vehicles through the prohibition of use of higher emission vehicles, improving the quality of fuel and promoting the use of clean energy vehicles and the strict enforcement of environment laws and regulations.

China s 13th Five Year Plan covering the years 2016 to 2020, which was formerly adopted at the National People s Congress in Beijing in March 2016 seeks to reduce energy consumption by 15% and carbon emissions by 18% by 2020. In addition, green and low carbon industry systems will be set up, the use of new energy vehicles will be promoted and the industrialization level of electric cars improved. On March 11, 2016, China s Environment Minister announced a set of major reforms of China s environmental management and governance system to strengthen enforcement of related environmental protection laws. The reforms which will be phased in on a pilot basis in 17 provinces and autonomous regions will be completed nationwide in 2018. As part of the reforms, in 2016, the State Council dispatched central environmental inspection teams made up of ministerial level officials to 15 provincial areas, including Beijing, Shanghai and Guangzhou, to monitor local conditions and encourage provincial governments to fulfill their environmental protection responsibilities, resulting in disciplinary actions against a number of government officials and the imposition of fines for environmental violations. Such central environmental inspections are intended to cover all provinces, autonomous regions and municipalities by the end of 2017. In addition, in February 2017, China s Environment Minister announced a month-long special inspection on air quality across Beijing and Tianjin municipalities and Hebei, Shanxi, Shandong and Henan provinces to check on the implementation of pollution control measures by both local governments and companies. On April 10, 2017, the Ministry of Environmental Protection issued its 13th Five-Year Plan for National Environmental Protection Standards. The Plan calls for the amendment of existing environmental protection standards and the implementation of new environmental protection standards, including in relation to air quality and pollution emission control, environment detection and basic environment standards and environmental management standards.

Yuchai delivers, on a regular basis, burned sand and certain other waste products to a waste disposal site approved by the local government and makes payments in respect thereof. Yuchai expects that environmental standards and their enforcement in China will, as in many other countries, become more stringent over time, especially as technical advances make achievement of higher standards more feasible. Yuchai has built an air filter system to reduce the level of dust and fumes resulting from its production of diesel engines. As of July 2013, the National IV emission standards for diesel engines were effective throughout China, and strict enforcement of the standards commenced nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. On January 18, 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection required that all light petrol vehicles, light diesel buses, and heavy diesel vehicles (for the purposes of public transportation, environmental sanitation and postal services) must comply with National V emission standards from January 1, 2017. All heavy diesel vehicles and all light diesel vehicles nationwide are required to comply with National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced that all light-duty gasoline- and diesel-powered vehicles must comply with National VIa emission standards from July 1, 2020 and National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule.

Yuchai produces diesel engines compliant with National IV and National V emission standards, and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. Yuchai is also able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production volumes of such engines continues to produce such engines solely for export from China. See Item 3. Key Information Risk Factors Risks relating to our company and our business We may be adversely affected by environmental regulations.

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Annual Report. Our consolidated financial statements and the financial information discussed below have been prepared in accordance with IFRS.

During the fiscal years ended December 31, 2015, 2016 and 2017, our main business has been our 76.4% ownership interest in Yuchai. As a result, our financial condition and results of operations have depended primarily upon Yuchai s financial condition and results of operations.

Overview

During 2017, as the Chinese government heavily promoted the One Belt One Road initiative, our international business achieved growth in 2017 with over 12,000 engines shipped and installed in Chinese buses entering into the global market, and natural gas engine export sales grew 300% year-on-year. The global bus market covering countries like the Saudi Arabia, Pakistan, Myanmar, Cambodia, and Kuwait. We received the prestigious China s Export Quality and Safety Demonstration Enterprise award by the General Administration of Quality Supervision, Inspection and Quarantine. This award is the highest credit rating and honor for Chinese companies that sell their products internationally.

Many of our OEM customers cranked up production to meet the rising demand. As a trusted producer with the largest aftermarket service network, our heavy-duty truck engine business posted an accelerated unit growth of 64.5% in 2017. In addition to the heavy-duty segment, our light-duty truck engine division also set a new record in unit sales with a vigorous 49.5% year-over-year increase. We also continued to rapidly regain market share in the agricultural and farming equipment sector as our engine shipments to the vast agricultural market in China expanded with a strong 31.1% increase from 2016.

The China economy is expected to grow at a slower pace in 2018, according to the World Bank. The pace of economic growth in China fluctuated from 7.4% in 2014 to 6.9% in 2015 to 6.7% in 2016 and 6.9% in 2017, according to China s National Bureau of Statistics. On March 5, 2016, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China for the next five years from 2016 to 2020 to a range of between 6.5% to 7.0%, conceding that there were many challenges ahead including growing downward pressures on China s economy. On March 4, 2017, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China in 2017 to 6.5%. On March 5, 2018, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the growth target for China in 2018 would remain unchanged at 6.5%.

The Chinese commercial vehicle market is a highly competitive market. According to CAAM, in 2015, the commercial vehicle sales were 2.5 million units, a decline of 11.9% compared to 2014. This was mainly due to a decline in unit sales of trucks primarily due to the strict enforcement of the National IV emission standards from January 1, 2015. The Chinese government introduced generous incentives to encourage the sales of electric powered vehicles to curb air pollution in the major cities resulting in increased sales of such vehicles in 2015 compared with 2014. Excluding the sales effect of gasoline powered and electric powered vehicles, the commercial vehicle market decreased by 14.4% in 2015 compared with 2014. The decline was due to weak demand in the heavy- and medium-duty truck and heavy- and medium-duty bus segments, which registered a decline in sales of 26.0%, 21.0%, 25.5% and 19.8%, respectively.

In 2016, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 2.7 million units, an increase of 8.3% compared with 2015, primarily due to an 11.6% in the truck market as stricter enforcement of anti-overloading regulations resulted in higher sales, which was partially offset by a 9.9% decline in sales in the bus segment compared with 2015. The bus segment declined in every size category, led by a 20.1% decrease in heavy-duty bus sales due to increased demand for electric-powered buses. In 2017, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 3.1 million units, an increase of 16.9% compared with 2016, primarily due to an increase of 19.5% in the truck market as stricter enforcement of anti-overloading regulations and increasing demand in logistics services resulted in higher sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1% compared with 2016.

In recent years, the Chinese government has been focused on developing the new-energy vehicle industry to curb air pollution. Various incentives and infrastructure investments have been introduced to encourage purchases of electric-powered vehicles. As a result, the sales of electric-powered vehicles increased by approximately 26.8% in 2017 to 176,331 units from 139,060 units in 2016. Excluding gasoline-powered and electric-powered vehicles, sales of other fuel-powered trucks increased by approximately 19.5% due to the enforcement of anti-overloading regulations, while sales of other fuel-powered buses decreased by approximately 0.7%, and sales of medium-duty buses decreased by approximately 21.6%. At the National People s Congress in March 2017, the Ministry of Industry and Information Technology was pushing for more electric-powered vehicles on one hand, other parts of the government decided to lower the financial incentive program for new energy vehicles. China has, beginning in December 2016, gradually reduced subsidies for new energy vehicles and is expected to phase out all financial assistance by 2020, replacing such assistance with fiscal rewards for qualified companies, while continuing to invest in the charging station network to support the growing number of new-energy vehicles on the road. On February 12, 2018, the Ministry of Finance, Ministry of Industry and Information Technology, Ministry of Science and Technology, National Development and Reform Commission jointly issued a notice in relation to adjustment and improvement of the policy application of financial subsidies for the promotion of new energy vehicles, giving a transition period of four months from February 12 to June 11, 2018, during when new energy vehicles will continue to enjoy subsidies while the subsidy rate will be reduced. The subsidy after June 11, 2018 will be even lower in accordance with the original subsidy reduction timeline.

The change in emission standards in China presents a growth opportunity for us. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and have been strictly enforced nationwide since January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2014, we recorded significant growth in the sale of our National IV engines. In 2015, sales of National IV engines continued to grow. In 2016, sales of National IV engines declined as compared with 2015, while sales of National V engines increased further as compared with 2015. In 2017, sales of National IV engines further declined as compared with 2016, while sales of National V engines had increased significantly as compared with 2016.

In 2015, the commercial vehicle market further weakened, and our engine sales declined by 24.6% to 364,567 units compared with 483,825 units in 2014. Our net revenue decreased by 16.4% to RMB 13.7 billion despite the drop in our unit sales. This was due to higher sales of engines that are compliant with higher emission standard such as National IV engines. In 2016, our engine sales declined by 12.1% to 320,424 units, mainly due to lower unit sales to the agricultural market. Our on-road engine sales reflected the sales trend in the commercial vehicle market. Our 2016 net revenue was RMB 13.7 billion compared with RMB 13.7 billion in 2015 despite the drop in our unit sales. This was due to higher sales of engines that are compliant with higher emission standard such as National V engines. The higher emission standard engines have a higher average sales price. In 2017, our engine sales increased by 14.6% to 367,097 units compared with 2016, which was primarily due to increases in sales of on-road heavy-duty and light-duty engines, and industrial and agricultural engines. Our net revenue increased by 18.7% to RMB 16.2 billion.

Our light-duty engine sales, as a percentage of total unit sales, decreased from 66.2% in 2015 to 63.1% in 2016 and to 58.1% in 2017. This change in sales mix and the market competition caused our gross margin to fluctuate from 20.3% in 2015 to 21.7% in 2016 and 21.7% in 2017, respectively.

As a result, our profit attributable to equity holders was RMB 341.1 million, RMB 515.7 million and RMB 953.9 million (US$150.7 million) for the year 2015, 2016 and 2017, respectively.

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

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Business Expansion and Diversification Plan

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

Thakral Corporation Ltd

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

Since fiscal year 2010, we have gradually reduced our equity interest in TCL. As of December 31, 2017 and February 28, 2018, our equity interest in TCL remained at 7.7%, and the market value of our investment in TCL amounted to approximately S$5.1 million (US$3.8 million) and S$5.3 million (US$4.0 million), respectively. We are currently considering our options in relation to our investment in the TCL group including disposing of our entire shareholding in TCL.

The TCL group invests directly or with co-investors in real estate and other investment opportunities which include property-backed financial instruments.

HL Global Enterprises Limited

The second step in the implementation of our business expansion and diversification plan occurred in February 2006 when through our wholly-owned subsidiaries, Grace Star and Venture Lewis, we acquired a 29.1% equity interest in HLGE and certain convertible preference and debt securities for an aggregate consideration of approximately S$132.0 million. As of December 31, 2017, our equity interest in HLGE was 48.9%. As of February 28, 2018, our equity interest in HLGE remained unchanged.

Critical Accounting Policies

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

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

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

- impairment of trade receivables;
- realization of the carrying value of inventories;

product warranty obligations;

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

realization of deferred tax;

impairment of non-financial assets; and

derecognition of bills receivable;

Impairment of trade receivables

Impairment of trade receivables is management s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. Management determines the impairment based on assessment of the recoverability of accounts receivable. Impairment are applied to accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Management reviews its impairment of trade receivables on a monthly basis. As of December 31, 2017, the Dongfeng Group accounted for about 9.6% of the gross accounts receivable as compared to approximately 11.6% as of December 31, 2016. Likewise, the top 20 non-Dongfeng Group customers accounted for about 12.8% of the gross accounts receivable at the end of 2017. We analyzed our customer s trends, repayment patterns and aging analysis in 2017. The balances that were past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Movement in impairment of trade receivables for each of the years in the two-year period ended December 31, 2017 are summarized as follows:

	December 31,		
	2016 RMB	2017 RMB	2017 US$
		(in thousands)	
Balance at beginning of year	51,288	54,634	8,632
Charge/(credit) to consolidated statements of profit or loss	3,696	(10,854)	(1,715)
Written off	(346)	(5)	(1)
Translation differences	(4)		
Balance at end of year	54,634	43,775	6,916

Gross trade receivables decreased by RMB 39.9 million (US$6.3 million) as of December 31, 2017 as compared to 2016. Impairment of trade receivables decreased by RMB 10.9 million (US$1.7 million). Bills receivable increased by RMB 3.4 million (US$0.5 million) as of December 31, 2017 as compared to 2016.

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

Realization of the carrying value of inventories

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

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of allowance for inventory obsolescence as at December 31, 2016 and 2017 were RMB 126.8 million and RMB 106.9 million (US$16.9 million) respectively. If market conditions or future product enhancements and developments change, the net realizable values of the inventories may change and result in further inventory write-downs.

Product warranty obligations

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road engine applications, the warranties extend for duration of generally 12 to 36 months or mileage of generally 50,000 to 300,000 kilometers, whichever is the lower. For off-road engine applications, the warranties extend for duration of generally 12 to 24 months. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

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Changes in the accrued product warranty liability for each of the years in the two-year period ended December 31, 2017 are summarized as follows:

	December 31,		
	2016 RMB	2017 RMB	2017 US$
		(in thousands)	
Balance at beginning of year	233,577	238,850	37,737
Provision made	350,803	412,514	65,174
Less: Provision utilized	(345,530)	(361,058)	(57,045)
Balance at end of year	238,850	290,306	45,866

We recognize a liability for warranty at the time the product is sold and our estimate of our warranty obligations is evaluated on an annual basis. If the nature, frequency and average cost of warranty claims change, we would adjust our allowances for product warranty by recording additional expense or benefit so as to seek to ensure that accruals will be adequate to meet expected future obligations. A decrease or increase of 5.0% in historical utilization experience over the last two fiscal years average would impact the provision for product warranty by approximately RMB 17.7 million (US$2.8 million).

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

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

In 2015, we reversed an impairment of RMB 21.9 million for Copthorne Hotel Qingdao Co., Ltd. (an investment of HLGE) made in 2013. The reversal was made because the latest valuation supports the reversal. The management also had obtained the consent of its joint venture partner to sell the joint venture. On February 22, 2016, HLGE announced its intention to dispose of its entire 60% shareholding interest in Copthorne Hotel Qingdao together with the other 40% equity holder by way of public tender on the Shanghai United Assets and Equity Exchange. In 2016, we performed impairment evaluation of our investments and determined that no impairment was required. In October 2017, we completed the disposal of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd and recorded a gain of RMB 108.0 million (US$ 17.0 million). See Note 22 to the consolidated financial statements in Item 18. In 2017, we performed impairment evaluation of our current investments and determined that no impairment was required.

Realization of deferred tax

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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

The China tax bureau periodically conducts tax examinations. In 2015, the local tax bureau conducted its tax examinations of Yuchai s PRC income tax returns for 2013 and 2014, being the years sampled for the current tax examinations. In May 2016, the final report was issued by local tax bureau for these examinations. No material issues were raised.

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the forecasts for the next eight to fifteen years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset s performance of the cash-generating unit (CGU) being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 6, Note 14 and Note 15 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of intangible assets as of December 31, 2015, 2016 and 2017 are RMB 81.8 million, RMB 81.8 million and RMB 10.1 million (US$1.6 million), respectively. We periodically conduct an impairment evaluation on the conditions of our intangible assets. In 2014, we performed an impairment evaluation of our intangible assets and an impairment charge of RMB 60.0 million was recorded to our consolidated statement of profit or loss under selling, general and administrative expenses. The impairment was related to 4Y20 engine platform technology development costs held by Jining Yuchai Engine Company Limited (Jining Technology Development Costs). In 2015, we performed an impairment evaluation of our intangible assets and a further impairment charge of RMB 26.7 million was recorded relating to the Jining Technology Development Costs. In 2016, we performed an impairment evaluation of our intangible assets and no impairment charge was recognized. In 2017, we performed an impairment evaluation of our intangible assets and a further impairment charge of RMB 40.0 million was recorded relating to the Jining Technology Development Costs. As a result, we made a total impairment charge of RMB 126.7 million (US$20.0 million) in relation to the Jining Technology Development Costs. See Note 15 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of goodwill as of December 31, 2015, 2016 and 2017 are RMB 212.6 million, RMB 212.6 million and RMB 212.6 million (US$33.6 million), respectively. We periodically conduct an impairment evaluation on the goodwill. No impairment was made for 2015, 2016 and 2017.

Our market capitalization as of December 31, 2015, 2016 and 2017 based on our closing share price was lower than our consolidated net assets. We performed our annual goodwill impairment tests as of December 31, 2015, 2016 and 2017, respectively, and did not incur any impairment charge. We will continue to monitor the relationship of fair value to the recorded value of our consolidated net assets as economic events and changes to our stock price occur, and we may perform interim impairment tests in the future. If future results are not consistent with our assumptions and estimates and there continues to be decline in our market capitalization, we may be required to record impairment charges at a later date, which could materially and adversely affect our financial results.

Derecognition of bills receivable

We sell bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the transfer of risks and rewards of the bills receivable when discounted, our management believes that the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 20 to the accompanying consolidated financial statements in Item 18.

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Results of Operations

The following table sets forth our consolidated statement of operations as a percentage of our revenue for the last three fiscal years ended December 31, 2015, 2016 and 2017:

	Percentage of Revenue Year Ended December 31,		
	2015	**2016**	**2017**
Revenue	100.0%	100.0%	100.0%
Cost of sales	-79.7%	-78.3%	-78.3%
Gross profit	20.3%	21.7%	21.7%
Other income, net	0.2%	0.7%	3.8%
Research and development costs	-3.7%	-4.3%	-3.7%
Selling, distribution and administrative costs	-10.9%	-11.0%	-11.2%
Operating profit	5.9%	7.1%	10.6%
Finance costs	-0.9%	-0.6%	-0.6%
Share of results of associates and joint ventures, net of tax	0.0%	0.0%	0.1%
Profit before tax	5.0%	6.5%	10.1%
Income tax expense	-1.3%	-1.2%	-1.4%
Profit for the year	3.7%	5.3%	8.7%
Attributable to:			
Equity holders of the Parent	2.5%	3.8%	5.9%
Non-controlling interests	1.2%	1.5%	2.8%

2017 compared to 2016

Revenue for 2017 was RMB 16,222.4 million (US$2,563.0 million) compared with RMB 13,664.8 million in 2016, an increase of 18.7%. The total number of diesel engines sold by Yuchai in 2017 was 367,097 units compared with 320,424 units in 2016, representing an increase of 46,673 units, or 14.6%. Revenue increased primarily due to an increase in the number of diesel engine units sold. According to CAAM, sales of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) increased by 16.9% in 2017. The truck market grew by 19.5% led by a 52.4% increase in heavy-duty truck sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1%.

Cost of sales was RMB 12,707.4 million (US$2,007.7 million) in 2017, an increase of 18.8% from RMB 10,700.7 million in 2016. Cost of sales represented 78.3% of revenue for both 2017 and 2016. The increase in cost of sales corresponds to the increase in the total number of engines sold in 2017 compared to 2016. Cost of materials consumed was RMB 11,041.9 million (US$1,744.5 million) in 2017, an increase of 18.6% from RMB 9,313.4 million in 2016. This was 68.1% of revenue in 2017 compared to 68.2% in 2016. Factory overheads (excluding depreciation) were RMB 861.1 million (US$136.0 million) in 2017, representing an increase of 26.8% from RMB 678.9 million in 2016. This was 5.3% and 5.0% of revenue for 2017 and 2016, respectively. Depreciation was RMB 307.1 million (US$48.5 million) in 2017, a decrease of 4.7% from RMB 322.3 million in 2016. This was 1.9% and 2.4% of revenue for 2017 and 2016, respectively.

Gross profit was RMB 3,515.0 million (US$555.3 million) compared with RMB 2,964.2 million in 2016, an increase of 18.6%. Gross profit margin was 21.7% in 2017 and 2016.

Other income, net was RMB 624.6 million (US$98.7 million) compared with RMB 95.4 million in 2016. In 2017, we recorded a one-time gain of RMB 115.2 million (US$ 17.6 million) on the completion of engineering design services for the YC6K heavy-duty engine platform for our joint venture, Y&C, and a one-time gain of RMB 324.1 million (US$ 49.6 million) from the sale of HLGE s hotel assets located in China. Excluding these one-time items, other operating income was RMB 185.3 million (US$ 29.3 million) compared with RMB 95.4 million in 2016, and the increase was mainly due to higher foreign exchange gains and higher bank interest income.

Research and development (R&D) expenses were RMB 608.2 million (US$96.1 million) in 2017 compared to RMB 588.0 million in 2016, an increase of RMB 20.2 million or 3.4%. R&D expenses were 3.7% and 4.3% of revenue in 2017 and 2016, respectively. R&D expenses increased mainly due to the ongoing research and development of new and existing engine products as well as continued initiatives to improve engine quality. The Company remains committed to its R&D programs and continues to introduce new engine models for both the on-road and off-road markets compliant with increasingly stringent emission standards. In January 2018, 14 new engine models were introduced that are compliant with the more stringent National VI (equivalent to Euro VI) emission standard.

Selling, general and administrative (SG&A) expenses were RMB 1,815.9 million (US$286.9 million) compared to RMB 1,504.4 million in 2016, an increase of RMB 311.5 million or 20.7%. SG&A expenses represented 11.2% of net revenue, compared with 11.0% in 2016. In 2017, SG&A expenses included an impairment charge of RMB 40.0 million (US$ 6.3 million) related to the intellectual property for the Jining Technology Development Costs related to the 4Y20 engine platform, as well as a staff severance cost of RMB 107.7 million (US$ 17.0 million). In 2016, staff severance cost of RMB 12.9 million was recorded. Excluding these extraordinary events, SG&A expenses increased by 11.8% to RMB 1.7 billion (US$ 255.3 million) from RMB 1.5 billion in 2016. These expenses represented 10.3% of net revenue, compared with 10.9% in 2016.

As a result, operating profit increased by 77.4% to RMB 1,715.6 million (US$ 271.1 million) from RMB 967.2 million in 2016. The increase was mainly due to the net gain of RMB 291.6 million (US$ 46.1 million) from one-time and extraordinary events. The operating margin was 10.6% compared with 7.1% in 2016. Excluding the one-time and extraordinary events, operating profit increased by 45.3% to RMB 1,424 million (US$ 225.0 million) from RMB 980.0 million in 2016.

Finance costs increased by 26.0% to RMB 100.4 million (US$ 15.9 million) from RMB 79.7 million in 2016. Higher finance costs mainly resulted from increased bank borrowings and higher trade bills discounted in 2017.

The share of associates and joint ventures were a profit of RMB 10.1 million (US$ 1.6 million) as compared with a loss of RMB 3.6 million in 2016 mainly due to strong diesel engines sales from our joint venture, Y&C.

Profit before tax was RMB 1,625.2 million (US$256.8 million) in 2017 compared with RMB 883.9 million in 2016.

Income tax expense in 2017 was RMB 220.2 million (US$34.8 million) compared with RMB 160.3 million in 2016. Our effective tax rates were 13.5% and 18.1% for 2017 and 2016, respectively. In 2017, the effective tax rate was low mainly due to gain on disposal of subsidiaries and joint venture, which is capital gain in nature and not subject to income tax.

As a result of the foregoing factors, profit for the year was RMB 1,405.1 million (US$222.0 million) in 2017 compared with RMB 723.6 million in 2016, representing an increase of 94.2%.

Net Profit attributable to our shareholders increased by 85.0% to RMB 953.9 million (US$ 150.7 million) compared with RMB 515.7 million in 2016. Net profit attributable to our shareholders in 2017 included a net gain of RMB 130.3 million (US$ 20.6 million) from the one-time and extraordinary events. Adjusted total net profit attributable to our shareholders in 2017, excluding the one-time and extraordinary events, was RMB 823.6 million (US$ 130.1 million), compared with RMB 524.1 million in 2016, representing an increase of 57.2%.

2016 compared to 2015

Revenue for 2016 was RMB 13,664.8 million compared with RMB 13,733.4 million in 2015, a decrease of 0.5%. The total number of diesel engines sold by Yuchai during 2016 was 320,424 units compared with 364,567 units in 2015, representing a decrease of 44,143 units, or 12.1%. Revenue decreased primarily due to fewer unit sales to agricultural market. The decrease in revenue was smaller compared to the decline in sales volume due to increased sales of higher emission standard engines and higher horsepower engines. The higher emission standard engines and higher horsepower engines have a higher average selling price compared with lower emission standard engines. According to CAAM, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) increased by 8.3% in 2016 compared with 2015. The increase was led by a gain of 11.6% in the truck market and, in particular, a 33.1% increase in heavy-duty truck sales. The bus market remained weak as overall sales decreased 9.9% compared with 2015. The bus segment declined in every size category, led by a 20.1% decrease in heavy-duty bus sales due to increased demand for electric-powered buses. Our on-road engine sales reflected the sales trend in the commercial vehicle market.

Cost of sales was RMB 10,700.7 million in 2016, a decrease of 2.2% from RMB 10,942.9 million in 2015, and a reduction of 1.4 percentage points as a percentage of revenue to 78.3% from 79.7% in 2015. The decrease in cost of sales corresponds to the reduction in the total number of engines sold in 2016 compared to 2015. Cost of materials consumed was RMB 9,313.4 million in 2016, a decrease of 2.3% from RMB 9,531.4 million in 2015. This was 68.2% of revenue in 2016 compared to 69.4% in 2015, respectively, primarily due to a decrease in raw materials costs as a percentage of revenue in 2016 compared to 2015. Factory overheads (excluding depreciation) were RMB 678.9 million in 2016, representing an increase of 1.6% from RMB 668.2 million in 2015. This was 5.0% and 4.9% of revenue for 2016 and 2015, respectively. Depreciation was RMB 322.3 million in 2016, an increase of 0.7% from RMB 320.0 million in 2015. This was 2.4% and 2.3% of revenue for 2016 and 2015, respectively.

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Gross profit was RMB 2,964.2 million compared with RMB 2,790.6 million in 2015, an increase of 6.2%. Gross profit margin was 21.7% in 2016 compared with 20.3% in 2015. The higher gross margin was attributable to a shift in sales mix to greater sales of higher emission standard engines and lower raw material costs as a percentage of revenue.

Other income, net was RMB 95.4 million compared with RMB 19.3 million in 2015. This increase was mainly due to lower foreign exchange revaluation losses and higher interest income from bank deposits in 2016 and a one-time loss in 2015 from the disposal of Yuchai s entire shareholding interest in Xiamen Yuchai Diesel Engines Co., Ltd. The main sources of other income in 2016 were (i) interest income of RMB 57.0 million, and (ii) government grants of RMB 41.5 million.

Research and development (R&D) expenses were RMB 588.0 million in 2016 compared to RMB 507.0 million in 2015, an increase of RMB 81.0 million or 16.0%. R&D expenses were 4.3% and 3.7% of revenue in 2016 and 2015, respectively. R&D expenses increased mainly due to the ongoing research and development of new and existing engine products, including new engines for the on- and off-road markets that meet higher emission standards, as well as continued initiatives to improve engine quality. We remained committed to our R&D programs and continue to introduce new engine models for both the on-and off-road markets compliant with increasingly stringent emission standards.

Selling, general and administrative (SG&A) expenses were RMB 1,504.4 million compared to RMB 1,497.8 million in 2015, an increase of RMB 6.6 million or 0.4%. SG&A expenses were 11.0% and 10.9% of revenue in 2016 and 2015, respectively. Warranty expenses were RMB 350.8 million in 2016 compared to RMB 307.6 million in 2015, representing 2.6% and 2.2% of revenue for 2016 and 2015, respectively. Advertising expenses were RMB 27.5 million in 2016 compared to RMB 32.8 million in 2015, representing 0.2% of revenue for both 2016 and 2015.

As a result, operating profit increased by 20.1% to RMB 967.2 million from RMB 805.2 million in 2015, mainly due to higher gross profit and other income, partially offset by higher R&D expenses. The operating margin was 7.1% and 5.9% for 2016 and 2015, respectively.

Finance costs declined to RMB 79.7 million from RMB 116.4 million in 2015, a decrease of RMB 36.7 million or 31.5%. Lower finance costs mainly resulted from lower bank borrowings. External borrowings decreased to RMB 910.4 million from RMB 2.5 billion in the same period in 2015.

The share of joint ventures was a loss of RMB 4.1 million as compared with a loss of RMB 2.9 million in 2015.

Profit before tax was RMB 883.9 million in 2016 compared with RMB 686.1 million in 2015.

Income tax expense in 2016 was RMB 160.3 million compared with RMB 176.8 million in 2015. Our effective tax rates were 18.1% and 25.8% for 2016 and 2015, respectively. In 2015, the higher effective tax rate was mainly due to the writing down of a deferred tax asset relating to a loss making subsidiary.

As a result of the foregoing factors, profit for the year was RMB 723.6 million in 2016 compared with RMB 509.3 million in 2015, representing an increase of 42.1%.

Net Profit attributable to our shareholders was RMB 515.7 million in 2016 compared with RMB 341.1 million in 2015, representing an increase of 51.2%. Profit attributable to non-controlling interests was RMB 207.9 million compared with RMB 168.2 million in 2015, representing an increase of 23.6%.

Inflation

The general annual inflation rate in China decreased to 1.6% in 2017 from 2.0% in 2016, according to the National Bureau of Statistics. Our results of operations may be affected by inflation, particularly rising prices for parts and components, labor costs, raw materials and other operating costs. See Item 3. Key Information Risk Factors Risks relating to our company and our business If China s inflation increases or the prices of energy or raw materials increase, we may not be able to pass the resulting increased costs to our customers and this may adversely affect our profitability or cause us to suffer operating losses.

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Seasonality

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

Liquidity and Capital Resources

Our primary sources of cash are funds from operations generated by Yuchai, as well as debt financing obtained by us. Our revenues are substantially generated by Yuchai and its subsidiaries, our Chinese operating companies, and are denominated in Renminbi. The Renminbi is currently freely convertible under the current account which includes dividends, trade and service related foreign exchange transactions; however, it is not currently freely convertible under the capital account which includes, among other things, foreign direct investment and overseas borrowings by Chinese entities. Some of the conversions between Renminbi and foreign currency under the capital account are subject to the prior approval of SAFE. As a result, there is no material restriction on the ability of the Chinese subsidiaries to transfer funds to Yuchai. However, certain funds transfers from Yuchai to us may be subject to the approval of SAFE. The General Affairs Department of SAFE promulgated circulars in August 2008 and July 2011, pursuant to which, Renminbi converted from capital contribution in foreign currency to a domestic enterprise in China can only be used for the activities that are within the approved business scope of such enterprise and cannot be used for China domestic equity investment, acquisition, giving entrusted loans or repayment of intercompany loans, with limited exceptions. On March 30, 2015, SAFE issued a notice to take effect from June 1, 2015 loosening the explicit prohibition against the use of Renminbi converted from capital contribution in foreign currency for domestic equity investment as set out in its circulars of August 2008 and July 2011. On June 9, 2016, SAFE issued a notice which became effective on the same day further allowing the use of Renminbi converted from capital contribution in foreign currency to be used for providing loans to affiliated enterprises of foreign invested enterprises. As the new policies have recently been implemented, its full applicability to a foreign-invested enterprise is currently uncertain. See Risk Factors Risks relating to China 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.

Our primary cash requirements are for working capital, capital expenditures to complete the expansion of production capacity, dividend payments and other operational requirements. We believe that our sources of liquidity are sufficient for our operational and working capital requirements over the next twelve months from the date of this Annual Report. However, under the current market conditions there can be no assurance that our business activity will be maintained at the expected level to generate the anticipated cash flows from operating activities. If the current market conditions deteriorate, we may experience a decrease in demand for our products, resulting in our cash flows from operating activities being lower than anticipated. If our cash flows from operations are lower than anticipated, we may need to obtain additional financing which may not be available on favorable terms, or at all. Other factors which may affect our ability to generate funds from operations include increased competition, fluctuations in customer demand for our products, our ability to collect and control our level of accounts receivable, the status of our investment in Yuchai under Chinese law and the implementation of the Reorganization Agreement and the Cooperation Agreement. See Item 4. Information on the Company History and Development Reorganization Agreement.

Our cash and cash equivalents are held in Renminbi, Singapore dollar, US dollar and Euro in accounts managed by third party financial institutions. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subjected to other adverse conditions in the financial markets. As of the date of this filing, we have experienced no loss or lack of access to cash in our operating accounts.

As of December 31, 2017, we had approximately RMB 6,029.2 million (US$952.6 million) in cash and bank balances on a consolidated basis. We believe that if we are considered on a stand-alone basis without our investment in Yuchai, we would find it difficult to raise new capital (either debt or equity) on our own.

As of December 31, 2017, we had outstanding borrowings of RMB 1,626.3 million (US$257.0 million), including Yuchai s borrowings of RMB 1,600.0 million (US$252.8 million).

We expect that cash generated from operations should provide us with sufficient financial flexibility to satisfy future bank obligations, capital expenditures and projected working capital requirements. However, at certain times, cash generated from operations is subject to seasonal fluctuations. As our business continues to grow, we will also require additional funds for increased working capital requirements and to finance increased trade accounts receivable. We expect to fund our working capital and trade accounts

receivable requirements primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank borrowings, issuance of short-term financing bonds (STFBs), medium-term notes (MTNs), ultra short-term bonds (USTB), discounting of bills receivable, accounts receivable factoring or other financing activities by Yuchai.

Yuchai has established banking relationships with a number of domestic Chinese banks, each of which will review Yuchai s loan applications on a case-by-case basis. In addition, CYI also has obtained credit facilities from certain banks in Singapore.

The securities issued by Yuchai since 2013 are as follow:

On May 28, 2013, upon the receipt of approval from its board of directors, shareholders and NAFMII to issue MTNs amounting to RMB 1.6 billion with a term of three years, Yuchai issued the first tranche of the MTNs amounting to RMB 1 billion. The MTNs bore a fixed annual interest rate of 4.69% and upon maturity on May 30, 2016, were fully repaid. All the proceeds from the issuance of the MTNs were used by Yuchai as working capital.

On April 8, 2015, upon the receipt of approval from its board of directors, shareholders and NAFMII to issue ultra short-term bonds (USTB) amounting to RMB 2 billion with a term not exceeding 270 days, Yuchai issued the first tranche of the USTB amounting to RMB 400 million. The first tranche of the USTBs bore a fixed annual interest rate of 4.9% and upon maturity on May 9, 2015, were fully repaid. All the proceeds from the issuance of the USTBs were used by Yuchai as working capital and repayment of loans. On September 16, 2015, Yuchai issued the second tranche of the USTB amounting to RMB 400 million. The second tranche of the USTBs bore a fixed annual interest rate of 3.9% and upon maturity on June 13, 2016 were fully repaid. All the proceeds from the issuance of the USTBs were used by Yuchai for the repayment of loans. NAFMII s approval to issue USTB of RMB 2 billion was valid for two years commencing from February 28, 2015.

In addition, CYI has other credit facilities granted by banks in Singapore as follows:

On March 30, 2007, we entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo Mitsui Banking Corporation, Singapore Branch for an aggregate of US$40.0 million to refinance the S$60.0 million facility from another bank that matured on July 26, 2007. The facility was for a period of three years from the date of the facility agreement and was utilized by us to finance our long-term general working capital requirements. The terms of the facility required, among other things, that Hong Leong Asia retained ownership of the special share and that we remained a principal subsidiary (as defined in the facility agreement) of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year not being less than US$120 million and the ratio of our total net debt (as defined in the agreement) to tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. As of June 12, 2007, we had fully drawn down on the US$40.0 million facility. On March 25, 2010, we entered into a supplemental agreement with the bank to refinance the existing US$40.0 million credit facility that matured on March 30, 2010. The new unsecured, multi-currency revolving credit facility had a committed aggregate value of US$30.0 million and was for a one-year duration. The financial covenant with respect to our consolidated tangible net worth as of June 30 and December 31 of each year was revised from not less than US$120 million to not less than US$200 million, but the other terms remained similar. On March 18, 2011, we entered into an agreement on similar terms with the bank to refinance the existing US$30.0 million credit facility that matured on March 25, 2011. This unsecured multi-currency revolving credit facility had a committed aggregate value of US$30.0 million and was for a three-year duration. On March 12, 2014, we entered into a supplemental agreement with the bank to renew the existing US$30.0 million facility that matured on March 18, 2014. The unsecured multi-currency revolving credit facility had a committed aggregate value of US$30.0 million and matured on March 18, 2017. On March 31, 2017, we entered into a supplemental agreement with the bank to renew the US$30.0 million facility. The new unsecured multi-currency revolving credit facility has an uncommitted aggregate value of US$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 12, 2014.

On March 20, 2008, we entered into a facility agreement with the MUFG Bank Ltd, Singapore Brach (formally known as Bank of Tokyo Mitsubishi UFJ, Ltd., Singapore Branch), to refinance the existing US$25.0 million credit facility which matured on March 20, 2009. The unsecured, multi-currency revolving credit facility had a committed aggregate value of S$21.5 million with one-year duration. The facility was used to finance our long-term general working capital requirements. Among other things, the terms of the facility required that Hong

Leong Asia retains ownership of the special share and that we remained a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year, not being less than US$120 million, and the ratio of our total net debt (as defined in the agreement) to tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. On March 19, 2009, we refinanced the existing revolving credit facility that matured on March 20, 2009 by entering into a new credit facility agreement with the bank for a committed aggregate value of S$16.5 million with one-year duration. On March 17, 2010, we entered into a one-year facility agreement with the bank on similar terms to refinance the existing S$16.5 million credit facility that matured on March 19, 2010. On March 11, 2011 we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2011. The unsecured multi-currency revolving credit facility had a committed aggregate value of S$30.0 million and was for a three-year duration. On March 13, 2014, we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2014. The unsecured multi-currency revolving credit facility had a committed aggregate value of S$30.0 million and matured on March 18, 2017. On March 30, 2017, we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility. The unsecured multi-currency revolving credit facility has a committed aggregate value of S$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 13, 2014.

On November 10, 2011, we entered into a three-year revolving credit facility agreement with DBS Bank Ltd. of Singapore with a committed aggregate value of S$30.0 million. Among other things, the terms of the facility required that Hong Leong Asia retains ownership of the special share and that we remain a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) not being less than US$350 million, and the ratio of our total net debt (as defined in the agreement) to tangible net worth not exceeding 1.0 times. This arrangement was used to finance our general working capital requirements and was repaid in full upon expiration of the facility on November 10, 2014. On May 22, 2015, we entered into a three-year revolving uncommitted credit facility agreement with DBS Bank Ltd. of Singapore with an aggregate value of S$30.0 million. The terms and conditions of this facility are similar to the facility agreement dated November 10, 2011. We are in process of renewing this facility.

As of December 31, 2017, CYI s (including Yuchai) unutilized facilities amounted to RMB 474.4 million (US$74.9 million).

We believe that should there be a need for further loans from banks, we can borrow additional amounts through our established banking relationships with a number of domestic Chinese or Singapore banks. We can also obtain financing by issuing bonds, issuing bills payable, discounting bills receivable, factoring accounts receivables or through other financing activities. However, such activities are subject to market conditions and there is no assurance that such additional activities would be successful.

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

	For Year ended December 31,			
	2015	**2016**	**2017**	**2017**
	RMB	**RMB**	**RMB**	**US$**
		(in thousands)		
Net cash from operating activities	1,686,718	2,276,087	1,370,167	216,477
Net cash (used in)/from investing activities	(25,496)	(572,031)	126,570	19,997
Net cash (used in)/from financing activities	(485,535)	(1,553,986)	280,862	44,374
Effect of foreign currency exchange on cash and cash equivalents	7,332	29,480	(41,189)	(6,507)
Net increase in cash and cash equivalents	1,183,019	179,550	1,736,410	274,341

In 2017, net cash from operating activities was an inflow of RMB 1,370.2 million (US$216.5 million). The inflow was mainly derived from profit before tax of RMB 1,625.2 million (US$ 256.8 million), which was partially offset by the payment for income tax of RMB 203.0 million (US$ 32.1 million). The impact of higher inventories on working capital was offset by the increase in trade and other payables. In 2016, net cash from operating activities was an inflow of RMB 2,276.1 million. The inflow was mainly derived from profit before tax of RMB 883.9 million and changes in working capital such as lower trade and other receivables, lower inventories as well as higher trade payables. In 2015, net cash from operating activities was an inflow of RMB 1,686.7 million. The inflow was mainly derived from profit before tax of RMB 686.1 million and changes in working capital such as lower trade and other receivables as well as inventories, partially offset by lower trade and other payables.

In 2017, net cash from investing activities was an inflow of RMB 126.6 million (US$20.0 million). The inflow was mainly due to proceeds from disposal of HLGE hotel assets located in China of RMB 524.3 million (US$82.9 million), interest received of RMB 108.5 million (US$17.1 million), partially offset by purchase of property, plant and equipment of RMB 289.5 million (US$45.7 million) and net placement of fixed deposits with bank of RMB 254.3 million (US$40.2 million). In 2016, net cash used in investing activities was an outflow of RMB 572.0 million. The outflow was mainly due to purchase of property, plant and equipment of RMB 351.5 million, net placement of fixed deposits with banks of RMB 282.8 million, offset by interest received of RMB 56.7 million. In 2015, net cash used in investing activities was an outflow of RMB 25.5 million. The outflow was mainly due to purchase of property, plant and equipment of RMB 397.8 million and offset by net withdrawal of fixed deposits with banks of RMB 126.7 million and inflow from disposal of subsidiaries of RMB 170.7 million.

In 2017, net cash from financing activities was an inflow of RMB 280.9 million (US$44.4 million). The inflow was mainly due to net proceed from bank borrowings of RMB 714.5 million (US$112.9 million), partially offset by payment of dividend of RMB 333.0 million (US$52.6 million) and payment of finance costs of RMB 107.2 million (US$ 16.9 million). In 2016, net cash used in financing activities was an outflow of RMB 1,554.0 million, which was mainly due to repayment of Medium Term Notes and Ultra Short-Term Bond of RMB 1.0 billion and RMB 400.0 million, respectively. In 2015, net cash used in financing activities was an outflow of RMB 485.5 million, which was mainly due to payment of dividend of RMB 236.9 million and placement of fixed deposits of RMB 300.6 million pledged for bank facility.

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

Our working capital as of December 31, 2017 was RMB 6,603.8 million (US$1,043.3 million) compared to RMB 5,272.1 million as of December 31, 2016.

As of December 31, 2017, we had long-term interest-bearing loans and borrowings totaling RMB 26.3 million (US$4.2 million) and current interest-bearing loans and borrowings totaling RMB 1,600.0 million (US$252.8 million).

As part of our business strategy, we seek opportunities from time to time to invest in China domestic manufacturers of diesel engine parts and components, as well as in other related automotive businesses, including truck manufacturers, and insurance, warranty servicing and credit support for diesel engine customers. We may make such investments and acquisitions with funds provided by operations, future debt or equity financing or a combination thereof. The following table sets forth information on payments related to our material contractual obligations for the periods indicated as of December 31, 2017:

Contractual Obligations	Total RMB	Payments Due by Period Less than 1 Year RMB	2-5 Years RMB	More than 5 Years RMB
		(in millions)		
Short-term debt [1]	1,624.5	1,624.5		
Long-term debt [1]	27.9		27.9	
Purchase obligations regarding capital expenditures[2]	409.5	409.5		
Operating lease commitments	35.3	19.6	15.7	
Total	2,088.6	2,045.0	43.6	

(1) Includes contractual interest payments

(2) The timing of the payment will depend on the actual progress of work.

Capital Expenditures

Our capital expenditures were RMB 429.9 million, RMB 285.0 million and RMB 261.4 million (US$41.3 million) in 2015, 2016 and 2017, respectively. These expenditures are primarily used for upgrading existing facilities and building new facilities mainly in Yulin City in Guangxi Zhuang Autonomous Region. We funded these capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that was insufficient, from bank loans and other financing activities by Yuchai.

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

As our business continues to grow, we will also require additional funds for capital expenditures. As of December 31, 2017, we had committed capital expenditures for upgrading existing facilities and building new facilities in the amount of RMB 409.5 million (US$64.7 million). We expect to continue funding our capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank loans and other financing activities by Yuchai. Yuchai s ability to obtain financing is limited by government regulation in China. Also, certain additional capital we contribute to Yuchai would require, among other things, the approval of the Ministry of Commerce which has broad discretion with respect to such approval.

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Off-Balance Sheet Arrangements

As of December 31, 2016 and 2017, in order to facilitate customer and supplier arrangements, Yuchai had issued irrevocable letter of credits of RMB 29.7 million and RMB 1.9 million (US$0.3 million), respectively. These were issued for purchase of production materials, machinery and equipment.

As of December 31, 2016, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled RMB 817.4 million. As of December 31, 2017, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled RMB 1,505.8 million (US$237.9 million). These bills receivables were received from customers in settlement for their purchases. Yuchai discounted these bills receivables to fund the operation, as and when required.

As of December 31, 2016 and 2017, outstanding bills receivable endorsed to suppliers for which Yuchai had retained a recourse obligation totaled RMB 851.1 million and RMB 1,316.1 million (US$207.9 million), respectively. The bills receivables received from customers can be endorsed to suppliers as a form of settlement of Yuchai s purchase for production materials.

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

Research and Development

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

Recently Issued Accounting Standards

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date without restating prior periods information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Overall, except for the implementation of a change in the classification and measurement of bills receivable, the Group expects no significant impact on its consolidated statement of financial position and equity.

The Group does not apply hedge accounting.

The Group s assessment of the elements of IFRS 9 is as described below:

(a) Classification and measurement

The Group considers business model for managing the financial assets and contractual cash flow characteristics of the financial assets, and conclude that the measurement basis arising from adopting the new classification and measurement model under IFRS 9 as below.

Loans and trade and other receivables that are currently accounted for at amortized cost will continue to be accounted for using amortized cost model under IFRS 9. Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Bills receivable that are currently accounted for at amortized cost will be accounted for at fair value through other comprehensive income under IFRS 9.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under IFRS 9. Equity securities that are currently classified as held for trading will continue to be measured at fair value through profit or loss.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant change in the expected loss allowance by adopting the new IFRS 9 compared with Group s current practice.

(c) Other adjustments

In addition to the adjustments described above, on adoption of IFRS 9, the Group does not expect significant adjustments to the other items of the consolidated financial statements.

In summary, the impact of IFRS 9 adoption is expected to result in a decrease in trade and other receivables by RMB 137.3 million (US$ 21.7 million) and a decrease in the equity by RMB 137.3 million (US$ 21.7 million) as of December 31, 2017.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Group has performed a preliminary impact assessment of IFRS 15 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts IFRS 15 in 2018.

The Group expects the following impact upon the adoption of IFRS 15:

(a) Warranty obligations

The Group provides certain warranties for both general repairs and maintenance services as part of the sales of goods. For general repairs, such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current practice. For maintenance services, under IFRS 15, such warranties will be accounted for as service-type warranties and, therefore, will be accounted for as a separate performance obligation for which the Group will allocate a portion of the transaction price to this performance obligation.

Upon the adoption of IFRS 15, the Group expects to record an adjustment to the consolidated statement of profit or loss for the financial year ended December 31, 2017 with a decrease in selling and distribution expenses by RMB 195.9 million (US$31.0 million), a decrease in revenue by RMB 21.1 million (US$3.3 million) and an increase in cost of sales by RMB 176.8 million (US$27.9 million). The Group also expects to record an adjustment to the consolidated statement of financial position as at December 31, 2017 with a decrease in provision for product warranty by RMB 19.1 million (US$3.1million), an increase in contract liability by RMB 21.1 million (US$3.3 million) and a decrease in retained earnings as at January 1, 2017 by RMB 5.3 million (US$0.8 million).

(b) Variable consideration

Volume rebates and trade discounts

The Group provides volume rebates or trade discount to its customers. Currently, the Group recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of volume rebates and trade discounts. Under its existing accounting policy, the Group estimates the expected volume rebates or trade discount using the expected amount of rebates approach and included them in accruals.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group has closely monitored and assessed the provision for volume rebates and trade discounts and does not expect material impact in revenue recognition.

Rights of return

Under IFRS 15, an entity estimates the transaction price and recognizes revenue based on the amounts to which the entity expects to be entitled through the end of the return period, and recognize such amount of expected returns as a refund liability, representing its obligation to return the customer s consideration.

To assess the impact in this regard, the Group has collated the statistics of actual sales return incurred for the past years. Based on the historical records and management estimates, the Group believes the effect from the sales with a right of return on adoption of IFRS 15 is insignificant to the overall financial results of the Group.

(c) Performance obligations

Under IAS 18 *Revenue*, the sale of a certain intangible asset amounting to RMB 115.2 million (US$18.2 million) was recognized in 2017 as other income, as the requirement for the production milestone was fulfilled.

With the adoption of IFRS 15, management has reviewed and concluded that the Group had significantly performed its obligations in 2015. Therefore, upon the adoption of IFRS 15, it will result in a decrease in other operating income of RMB 115.2 million (US$18.2 million) and tax expense of RMB 26.0 million (US$4.1 million) for the financial year ended December 31, 2017, and a corresponding increase in retained earnings of RMB 89.2 million (US$14.1 million) as at January 1, 2017.

(d) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group s financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgement made when assessing the contracts where the Group has concluded that: it acts as an agent instead of a principal, there is a significant financing component, and service-type warranties are provided. In addition, as required by IFRS 15, the Group will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017, the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

In summary, with the adoption of IFRS 15, the Group expects to record a decrease in its selling and distribution expenses by RMB 195.9 million (US$31.0 million), a decrease in revenue by RMB 21.1 million (US$3.3 million), a decrease in other operating income by RMB 115.2 million (US$18.2 million), a decrease in tax expense by RMB 26.0 million (US$ 4.1 million) and an increase in cost of sales by RMB 176.8 million (US$27.9 million) to its consolidated statement of profit or loss for the financial year ended December 31, 2017. The Group also expects to record a decrease in provision for product warranty by RMB 19.1 million (US$3.1 million), an increase in contract liability by RMB 21.1 million (US$3.3 million) and an increase in retained earnings by RMB 83.9 million (US$ 13.3 million) as at January 1, 2017.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group does not intend to early adopt the amendments. The Group will perform assessment on the impact once the IASB has decided the effective date of these amendments.

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IFRS 2 ***Classification and Measurement of Share-based Payment Transactions   Amendments to IFRS 2***

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

The Group s Equity Incentive Plan is considered an equity-settled share-based payment transactions and all the share options granted under this plan were vested in July 2017. The Group does not plan to elect for retrospective application and does not expect the amendments to have any material impact to the Group.

IFRS 16 ***Leases***

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard s transition provisions permit certain reliefs.

The Group plans to adopt the new standard on the required effective date. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements

IFRS 17 ***Insurance Contracts***

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

A specific adaptation for contracts with direct participation features (the variable fee approach)

A simplified approach (the premium allocation approach) mainly for short-duration contracts

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IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early application of interpretation is permitted and must be disclosed.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation, or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Group does not expect the application of IFRIC 22 to have material impact to the Group.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

Whether an entity considers uncertain tax treatments separately

The assumptions an entity makes about the examination of tax treatments by taxation authorities

How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

The Group is currently assessing the impact of the interpretation and plans to adopt the interpretation on the required effective date.

Applying IFRS 9 *Financial Instruments with IFRS 4 Insurance Contracts -Amendments to IFRS 4*

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts:

(i) Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 permits entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39.

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(ii) The overlay approach

The overlay approach permits all issuers of insurance contracts to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

This amendment is not relevant to the Group as the Group is not an issuer of insurance contract.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management s intentions for the use of a property does not provide evidence of a change in use.

The amendments are effective for annual periods beginning on or after January 1, 2018.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

The Group does not plan to early adopt the amendments and does not expect the amendments to have material impact to the Group.

Annual improvements 2014-2016 cycle (issued in December 2016)

IFRS 1 ***First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters***

Short-term exemptions in paragraphs E3 E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Group.

AIP IAS 28 ***Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice***

The amendments clarify that:

(i) An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

(ii) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate s or joint venture s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from January 1, 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

The amendments are not expected to have any impact to the Group as the Group does not plan to measure its investments in associates and joint ventures at fair value through profit or loss.

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Prepayment Features with Negative Compensation Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendment is effective for annual periods beginning on or after January 1, 2019. The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

The Group does not plan to early adopt the amendments and does not expect the amendments to have material impact to the Group.

Modification or exchange of a financial liability that does not result in derecognition

The IASB clarified that the requirements in IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

The gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognized in profit or loss.

This clarification relates to the application of IFRS 9 and does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

The Group does not plan to early adopt the amendments and does not expect the amendments to have material impact to the Group.

Long-term interests in associates and joint ventures Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendment is effective for annual periods beginning on or after January 1, 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

The amendments will eliminate ambiguity in the wording of the standard.

The amendment does not have any impact on the Group.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 *Business Combinations Previously held Interests in a joint operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

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The Group does not plan to early adopt the amendments.

IFRS 11 ***Joint Arrangements Previously held Interests in a joint operation***

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not plan to early adopt the amendments.

IAS 12 ***Income Taxes Income tax consequences of payments on financial instruments classified as equity***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

The Group does not plan to early adopt the amendments. The Group does not expect the amendments to have material impact to the Group.

IAS 23 ***Borrowing Costs Borrowing costs eligible for capitalization***

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not plan to early adopt the amendments. The Group does not expect the amendments to have material impact to the Group.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Executive Officers of the Company

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of February 28, 2018, there were eight members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yiyong are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

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Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming [1][4]	President and Director	2011
GAN Khai Choon [1][4]	Director	1995
KWEK Leng Peck [1][2]	Director	1994
YAN Ping[1]	Director	2012
WU Qiwei[1]	Alternate Director to YAN Ping	2012
NEO Poh Kiat [1][2][3]	Director	2005
TAN Aik-Leang [1][3]	Director	2005
HAN Yiyong [1]	Director	2010
HO Raymond Chi-Keung [2][3]	Director	2013
PHUNG Khong Fock Thomas [1]	Chief Financial Officer	2016
Conyers Corporate Services (Bermuda) Limited[5]	Secretary	2015

Ms. Shing Mei Deborah Foo relinquished her position as General Counsel in August 2017. Ms. Yanni Long was appointed as Ms. Foo s successor in July 2017 and relinquished her position in January 2018.

(1) Also a Director of Yuchai.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Also a Director of HLGE.
(5) Codan Services Limited was renamed to Conyers Corporate Services (Bermuda) Limited with effect from April 1, 2017.

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

Mr. Gan Khai Choon is a Director of the Company, Yuchai, Grace Star, Venture Lewis, Venture Delta, Safety Godown Company Limited and Millennium & Copthorne Hotels Management (Shanghai) Limited. He is also the Non-Executive Chairman of HLGE and Beijing Fortune Hotel Co., Ltd. as well as the Managing Director of Hong Leong International (Hong Kong) Limited. He has extensive experience in the banking, real estate investment and development sectors and has been involved in a number of international projects for the Hong Leong group of companies, which include the management and development of the Grand Hyatt Taipei and the Beijing Riviera. He holds a Bachelor of Arts Degree (Honors) in Economics from the University of Malaya. Mr. Gan is related to Mr. Kwek Leng Peck.

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

Mr. Yan Ping is a Director of the Company and the Chairman of the Board of Directors of Yuchai. He is also the Chairman of the State Holding Company. The State Holding Company which is owned by the City Government of Yulin in Guangxi Zhuang Autonomous Region, China, is a 22.1% shareholder in Yuchai. Prior to his above appointments, Mr. Yan held various China-government related positions, including as Deputy Secretary-General of the Yulin Municipal Government, as Director of the Yulin Municipal Development and Reform Commission and as Deputy General Manager of Guangzhou-Shenzhen Railway Company, Ltd. Mr. Yan holds a Bachelor of Engineering Degree from Dalian

Railway College and a Master s degree in Statistics from the Dongbei University of Finance and Economics.

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

Mr. Neo Poh Kiat is a Director of the Company and Yuchai. He is a Managing Director of Octagon Advisors Pte. Ltd, a financial advisory firm in Singapore. Between August 1976 and January 2005, he held various senior managerial positions with companies in the DBS Bank group and United Overseas Bank Ltd. Mr. Neo is currently also a director of Cambodia Post Bank Plc, Fullerton Credit (Sichuan) Ltd., Fullerton Credit (Chongqing) Ltd., Fullerton Credit (Hubei) Ltd., Fullerton Credit (Yunnan) Ltd. and CapitaLand Retail China Trust Management Limited. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE s corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan was also a Director of the Risk Management Association, Hong Kong Chapter from May 2000 to January 2016. Mr. Tan graduated in Accounting from Western Australian Institute of Technology (now known as Curtin University). He is a Fellow member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE s corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an independent Director on April 30, 2013. He is now practicing as an independent arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining the secretariat of the Law Society in 2006, he had practiced law for 23 years since 1983. He holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the panel of arbitrators of the Hong Kong International Arbitration Centre. He is a non-practising member of the Law Society of Hong Kong, The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho is currently a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE s corporate governance standards, on the basis that the Company has no material relationship with him.

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

Dr. Phung Khong Fock Thomas was appointed Chief Financial Officer of the Company on June 1, 2016. He was appointed a Director of Yuchai with effect from January 23, 2017. Dr. Phung has over 20 years experience in both the manufacturing and service sectors. Prior to this appointment, Dr. Phung was the East Asia Pacific Finance Director for Alstom Transport (Singapore) Pte Ltd. He has also worked at Bombardier Transportation group, Thales GeoSolutions (Asia Pacific), Glaxo SmithKline Singapore Pte Ltd and Baker Oil Tools, a Baker Hughes company. At Shandong Asia Pacific SSYMB Pulp & Paper Co. Ltd, he was based in Shandong, China for three years. Dr. Phung started his career as a credit authorizer at Bank of America in Singapore. Dr. Phung received his PhD in Finance from Cass Business School, City University in London in 1998 and an MBA in Financial Management from Hull University Business School in Hull, UK in 1994.

Conyers Corporate Services (Bermuda) Limited was appointed Secretary of the Company on January 28, 2015.

Audit Committee

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

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Compensation Committee

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

Directors and Executive Officers of Yuchai

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

Pursuant to the Shareholders Agreement and our Bye-Laws, the Yuchai Directors designated by us will vote as a block in accordance with the vote of the majority of such Directors. As part of the terms of the Reorganization Agreement, Yuchai affirmed our continued rights, as Yuchai s majority shareholder, to direct the management and policies of Yuchai through Yuchai s Board of Directors. The directors and executive officers of Yuchai as of February 28, 2018 are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
YAN Ping (1)	Chairman of the Board of Directors	2005
HOH Weng Ming (1)	Deputy Chairman of the Board of Directors	2008
WU Qiwei (2)	Director and President	2011
GAN Khai Choon (1)	Director	2007
KWEK Leng Peck (1)	Director	2005
NEO Poh Kiat (1)	Independent Director	2008
TAN Aik-Leang (1)	Independent Director	2005
LU Yuming	Director and Chief Accountant	2014
PHUNG Khong Fock Thomas	Director	2017
HAN Yiyong (1)	Director and Company Secretary	2010
GU Tangsheng	Director	2005
LAI Tak Chuen Kelvin (3)	Director and Chief Business Controller	2011
TAY Hui Boon Kelly (3)	Financial Controller seconded to Yuchai	2008
LIU Hung Derek (3)	Deputy General Manager	2012
QIN Xiaohong	Vice President	2015
WANG Limin	Vice President	2015
TAN Guirong	Vice President	2015
NING Xingyong	Vice President	2015
CAI Xiaohong	Vice President	2017

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

For information about Messrs. Yan Ping, Gan Khai Choon, Neo Poh Kiat, Kwek Leng Peck, Tan Aik-Leang, Hoh Weng Ming, Phung Khong Fock Thomas and Han Yiyong, see Item 6. Directors, Senior Management and Employees Directors and Executive Officers of the Company.

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

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

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

Mr. Lai Tak Chuen Kelvin was appointed Vice President of Operations of the Company on June 7, 2010. He was appointed Chief Business Officer and a Director of Yuchai on March 11, 2011 and June 28, 2013, respectively. Mr. Lai holds a Bachelor of Business Administration in Management from the Open University of Hong Kong as well as a Postgraduate Certificate in Engineering Business Management from the University of Warwick, UK. He worked for ten years as a marine engineer in a shipping company before moving on to Rolls-Royce International Ltd where he held various positions, over a period of 14 years, in their power generation and industrial power business covering the Greater China Region including Taiwan. He has also worked for Cummins Hong Kong Ltd as General Manager in their diesel engine distribution and aftermarket business covering Southern China and Hong Kong.

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

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

Ms. Qin Xiaohong was appointed a Vice President of Yuchai in 2015. She joined Yuchai in 1990 and held the position of Chief Accountant from July 2007 September 2013. She holds a Master s degree in Business Administration from Guangxi University.

Mr. Wang Limin was appointed a Vice President of Yuchai in 2015. He was appointed as a Deputy General Manager of Yuchai on January 1, 2013. He holds a Bachelor s degree in Vehicle Engineering from Hubei Automotive Industrial College.

Mr. Tan Guirong was appointed a Vice President of Yuchai in 2015 after serving as Vice General Manger from February 3, 2015. He holds a Master s degree in Business Administration from Huazhong University of Science and Technology.

Mr. Ning Xingyong was appointed a Vice President of Yuchai in 2015. He holds a Bachelor s degree in Foundry Engineering from Guangxi University.

Mr. Cai Xiaohong was appointed a Vice President of Yuchai with effect from December 19, 2017 after serving as Senior Quality Controller from October 14, 2016. He holds a Diploma in Engineering Machinery in Guangxi Hydropower College.

Mr. Ye Bin and Mr. Liang Qingyan relinquished their position as a Vice President of Yuchai in December 2017 respectively.

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

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

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

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

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

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

Yuchai s management consists of a Chairman, a President and several Vice Presidents, other senior officers designated by its Board of Directors and senior managers and officers designated by us. Yuchai s management handles daily operations and implements the corporate policies under the direction and guidance of its Board of Directors.

As a general matter, we require access to certain financial books and records of Yuchai so as to be able to monitor our investment in Yuchai and to prepare our consolidated financial statements. In early 2004, Yuchai temporarily denied us such access. In response, we initiated dialogue with representatives of Yuchai and shortly thereafter agreed with Yuchai to resume allowing us full access to the financial books and records of Yuchai. Moreover, and as disclosed elsewhere in this Annual Report, we require the cooperation of Yuchai and its Chinese shareholders and have from time to time experienced certain problems in obtaining such cooperation. In response to such problems, we entered into dialogue with representatives of Yuchai and its Chinese shareholders and thereafter executed the Reorganization Agreement, which we believe addresses these problems. As part of the terms of the Reorganization Agreement, Yuchai agreed that it would seek the requisite shareholder approval prior to entering into any material transactions (including any agreements or arrangements with parties related to Yuchai or any of its shareholders) and that it would comply with its governance requirements. However, no assurances can be given regarding implementation of the terms of the Reorganization Agreement. We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and, as of February 28, 2018, we have a team working full-time at Yuchai s principal manufacturing facilities in Yulin city. In addition, the President, Chief Financial Officer and a manager proficient in Section 404 of Sarbanes Oxley Act of 2002, or SOX, frequently usually monthly for as much as up to two weeks at a time to Yuchai to actively participate in Yuchai s operations and decision-making process. See also Item 3. Key Information Risk Factors Risks relating to our company and our business our financial condition, results of operations, business and prospects may be adversely affected if we are unable to implement the Reorganization Agreement and the Cooperation Agreement.

Compensation

Service Fees

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

In fiscal year 2017, and subject to shareholders approval at the annual general meeting, we will pay an annual service fee of US$50,000 for all directors (pro-rated accordingly if a director resigns or assumes the position during the year) other than the President of the Company. For fiscal year 2017, and subject to shareholders approval at the annual general meeting, we will pay an annual service fee of US$60,000 and US$40,000 to the Chairman and each of the members of the Audit Committee, respectively. See Item 7. Major Shareholders and Related Party Transactions.

Share Ownership

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

China Yuchai International Limited 2014 Equity Incentive Plan

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

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

Plan Administration

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

Shares Reserved for the Equity Incentive Plan

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

Eligibility

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

Options

The grant of share options is to be at an exercise price not less than 100% of the fair market value of the common stock subject to the option on the date the option is granted and the par value of the Common Stock. The options may vest based on performance or other criteria and, at any time after the grant of an option, the Compensation Committee may, in its sole discretion, accelerate the vesting of such option. Repricing of share options are prohibited without the approval of shareholders. The grant of restricted stock and stock payments must be at a purchase price to be established by the Compensation Committee but in any event, no less than US$1.00 per award. The term of share options may not exceed ten years from the date of grant. The number of share options that the Company has granted to its executive officers and Yuchai s employees is set out in the following table and as of December 31, 2017, there were 470,000 options outstanding under the Equity Incentive Plan. No further options have since been granted under the Equity Incentive Plan. The options vest in three equal installments over a three-year term and as of December 31, 2017 and February 28, 2018, all options granted have vested in the grantees.

Name	Options Outstanding	Exercise Price (US$/Share)		Grant Date	Expiration Date
YAN Ping	200,000	$	21.11	July 29, 2014	July 28, 2024
HOH Weng Ming	150,000	$	21.11	July 29, 2014	July 28, 2024
WU Qiwei	80,000	$	21.11	July 29, 2014	July 28, 2024
LAI Tak Chuen Kelvin	20,000	$	21.11	July 29, 2014	July 28, 2024
TAY Hui Boon Kelly	20,000	$	21.11	July 29, 2014	July 28, 2024
	470,000				

Restricted Stock

The Compensation Committee is authorized to grant shares subject to various restrictions, including restrictions concerning voting rights and transferability, and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Compensation Committee. Subject to the conditions set forth in the Equity Incentive Plan, upon issuance of restricted stock, the holder shall have, unless otherwise provided by the Compensation Committee, all the rights of a shareholder with respect to said shares, subject to the restrictions in each individual award agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that, in the sole discretion of the Compensation Committee, any extraordinary or special dividends or distributions with respect to the shares shall be subject to the restrictions set forth in the Equity Incentive Plan.

Stock Payments

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

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Non-transferability

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

Amendment, Suspension and Termination

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

Duration of the Plan

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

Benefits

The aggregate amount of compensation paid to all directors and executive officers of the Company and Yuchai during 2017 was approximately RMB 79.3 million (US$ 12.5 million).

There are no benefits to be provided to the directors of the Company or Yuchai upon their termination of employment. See also Item 10. Additional Information Memorandum of Association and Bye-Laws Directors Remuneration and Pensions.

Employees

As of December 31, 2015, 2016 and 2017, Yuchai employed approximately, 10,420, 9,887 and 8,678 people, respectively, nationwide in China.

Yuchai provides its employees with a fixed base salary and a bonus that is determined by the employees performance and productivity and participates in defined contribution retirement plans as legally mandated under applicable Chinese laws. See Note 8.4 to the accompanying consolidated financial statements in Item 18 for more details. Yuchai also provides its employees meal subsidies and medical insurance, and certain employees receive further subsidies for housing. For fiscal year 2017, the total annual salary and bonus paid and payable to Yuchai s employees was RMB 1,219.1 million (US$192.6 million). Yuchai, on an annual basis, enters into a collective labor agreement with the union which represents all of its employees. Yuchai has not experienced any material work stoppages and considers employee relations to be good.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth certain information regarding beneficial ownership of our shares of Common Stock as of February 28, 2018 by all persons who are known to us to own 5% or more of the outstanding shares of Common Stock.

Beneficial ownership is determined in accordance with rules of the SEC, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and includes equity shares issuable pursuant to the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days. These shares are deemed to be outstanding and to be beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, all information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated, we believe that persons named in the table have sole voting and sole investment power with respect to all the equity shares shown as beneficially owned. The share numbers and percentages listed below are based on 40,858,290 shares of Common Stock outstanding as of February 28, 2018.

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Identity of Person or Group	Number	Percentage
Hong Leong Asia Ltd [(1)]	16,360,845	40.0%
The Yulin City Government [(2)]	7,028,151	17.2%
Shah Capital Management [(3)]	3,258,869	8.0%

(1) Information based upon an announcement by Hong Leong Asia on the Singapore Exchange on July 5, 2016 and a report on Schedule 13D jointly filed by Hong Leong Asia and its wholly-owned subsidiaries, Hong Leong China, HL Technology, Flite Technology Industries Pte Ltd and Lydale Pte Ltd, with the SEC on July 19, 2002, as amended from time to time, most recently on July 5, 2016. Hong Leong Asia is currently the beneficial owner of and exercises control over the special share and the 16,360,845 shares of Common Stock or approximately 40.0% of the total number of shares of Common Stock held by its wholly-owned subsidiaries, HL Technology and Well Summit Investments Limited, having increased its holdings from 34.9% to 35.5% during the period from March 11 to 26, 2014, from 35.5% to 37.02% during the period July 14 to December 26, 2014, from 37.02% to 38.7% during the period July 14 to August 25, 2015, from 38.7% to 40.2% as of June 29, 2016 and from 40.2% to 40.0% as of December 31, 2017. See also Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Shareholders Agreement. Other than as described under Item 3. Key Information Risk Factors Risks relating to our shares and share ownership We may experience a change of control as a result of sale or disposal of shares of our Common Stock by our controlling shareholders and Item 7. Major Shareholders And Related Party Transactions The Special Share, we are not aware of any arrangement which may, at a subsequent date, result in a change of control of the Company.

(2) Information based on a report on Schedule 13D filed by Coomber, Goldman, Zhong Lin and the State Holding Company, with the SEC on December 16, 2002, as amended from time to time, most recently on March 23, 2012. Based on Amendment No. 2 to the Schedule 13D filed by Coomber and others with the SEC on June 23, 2003, Coomber is a wholly-owned subsidiary of Goldman, which is indirectly owned and controlled by Yulin City Municipal Government, or Yulin City Government, in Guangxi Zhuang Autonomous Region, China. Accordingly, the Yulin City Government is the ultimate beneficial owner of the 7,028,151 shares of the Company s Common Stock held of record by Coomber. Based on Amendment No. 11 to the Schedule 13D filed by Coomber and others with the SEC on March 23, 2012, Goldman pledged all of its shares in Coomber to a third party in connection with a loan transaction entered into on March 19, 2012. Based on Amendment No. 12 to the Schedule 13D filed by Coomber and others with the SEC on December 18, 2012, a Deed of Release was entered into between Goldman and the third party on December 12, 2012 pursuant to which the latter released the pledge by Goldman described in Amendment No. 11.

(3) Information based on a report on Form 13F filed by Shah Capital Management with the SEC on January 23, 2018 for the fourth quarter ended December 31, 2017.

As of February 28, 2018, there were 25,937,303 shares of Common Stock, or 63.48% of the total number of shares of Common Stock, held of record by 17 holders with registered addresses in the United States.

Except as described below under The Special Share, each of our shareholders is entitled to one vote on all matters that require a vote of shareholders, and none of our shareholders has any contractual or other special voting rights.

The Special Share

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

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

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

Asia, holds the special share in addition to 7,831,169 shares of Common Stock, which is greater than the number stipulated in the provisions of our Bye-Laws set forth above.

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Related Party Transactions

Shareholders Agreement

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

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

Registration Rights Agreement

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