CHINA YUCHAI INTERNATIONAL LTD
Form 20-F/A
May 30, 2008
Table of Contents

Form 20-F/A (Amendment No. 1)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F/A

(Amendment No. 1)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

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 #26-00

Hong Leong Building

Singapore 048581

65-6220-8411

(Address and Telephone Number of Principal Executive Offices)

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2005, 37,267,673 shares of common stock, par value US$0.10 per share, and one special share, par value US$0.10, were issued and outstanding.

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

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

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

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

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

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

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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

Table of Contents

Form 20-F/A (Amendment No. 1)

EXPLANATORY NOTE

China Yuchai International Limited (the Company) is filing this Amendment No. 1 on Form 20-F/A to its Annual Report on Form 20-F for the fiscal year ended December 31, 2005, which was originally filed with the Securities and Exchange Commission on August 8, 2006, to reflect the restatement of its consolidated financial statements for the year ended December 31, 2005. The Company s consolidated financial statements for the year ended December 31, 2005 have been restated to reflect certain adjustments to correct accounting errors mainly at the Company s majority-owned subsidiary, Guangxi Yuchai Machinery Company Limited, or Yuchai, for such period. See Note 2A to the consolidated financial statements of the Company for a complete description and quantification of these adjustments and their impact on the Company s 2005 consolidated financial statements.

The most significant adjustment is to correct accounting errors for the understatement of accounts payable of Rmb 167.8 million (approximately US$20.8 million) by Yuchai at December 31, 2005, which we refer to in this Form 20-F/A as the Rmb 167.8 million Adjustment. A review of the understatement of accounts payable by Yuchai was conducted by the Company s Audit Committee, assisted by independent counsel and independent forensic consultants. As a result of this process, the Company s management and the Audit Committee identified errors in Yuchai s manual adjustments of its accounts payable in its attempts to reconcile with Yuchai s then-new accounting systems. In connection with their review, the Audit Committee found no evidence of fraud or intentional wrongdoing by any employee of the Company or Yuchai or any plan to intentionally inflate the profits by the management of Yuchai. The Rmb 167.8 million Adjustment has resulted in a decrease in the previously reported consolidated earnings before income taxes and minority interests of the Company for the year ended December 31, 2005 by approximately Rmb 122.7 million (US$15.2 million).

During the course of finalizing the Rmb 167.8 million Adjustment, the Company s management identified certain other accounting errors that were not previously known. The Company s management has decided to correct these other accounting errors as well as the previously known immaterial uncorrected audit adjustments pertaining to its 2005 consolidated financial statements. Appropriate correcting adjustments have been made and are reflected in the restated 2005 consolidated financial statements of the Company. The net impact of these other adjustments and the effects on income taxes and minority interests for all correcting adjustments, including the Rmb 167.8 million Adjustment, is an increase in the Company s previously reported consolidated net income for the year ended December 31, 2005 by approximately Rmb 21.9 million (US$2.7 million).

As a result of the above adjustments, the Company s consolidated financial results have been restated to report a net loss of Rmb 32.3 million (US$4.0 million) instead of the previously reported net income of Rmb 68.5 million (US$8.5 million).

The Company has also reclassified certain items in its consolidated financial statements as of and for the year ended December 31, 2005 as described in Note 2A. These reclassifications did not have any impact on the Company s consolidated net loss, as restated, for the year ended December 31, 2005.

In connection with the restatement of the 2005 consolidated financial statements, the Company has identified certain material weaknesses in its internal control over financial reporting for the period covered by this Form 20-F/A. See Item 15. Controls and Procedures .

Table of Contents

Form 20-F/A (Amendment No. 1)

This Form 20-F/A has not been updated except as required to reflect the effects of the restatement. This Form 20-F/A only amends and restates the Items described below and does not reflect events that have occurred after the August 8, 2006 filing date of the Annual Report on Form 20-F, or modify or update other disclosures presented therein. Items included in the original Form 20-F that are not included herein are not amended and remain in effect as of the date of the original filing. All references to Items that are included in the original Form 20-F but not included herein are to such Items as included in the original filing.

This Form 20-F/A amends and restates the following Items. While the following Items have been reproduced in full as required by Rule 12b-15 under the Securities Exchange Act of 1934, no changes have been made to such Items except to reflect the restatement:

Part I	Item 3. Key Information Selected Financial Data
	Item 5. Operating and Financial Review and Prospects
Part II	Item 15. Controls and Procedures
Part III	Item 18. Financial Statements

In addition, this Form 20-F/A includes currently dated Section 302 and Section 906 certifications of the Chief Executive Officer and the Group Financial Controller that are attached to this Form 20-F/A as Exhibits 12.1 and 13.1.

Translation of amounts from Renminbi to U.S. dollars has been made at the rate of Rmb 8.0702 = US$1.00, the rate quoted by the People s Bank of China at the close of business on December 30, 2005. No representation is made that the Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate or at any other rate prevailing on December 30, 2005 or any other date. The Renminbi has appreciated against the U.S. dollar since December 30, 2005. The rate quoted by the People s Bank of China at the close of business on May 15, 2008 was Rmb 7.0000 = US$1.00. Since the previously filed Annual Report on Form 20-F for the year ended December 31, 2005 included translation of amounts from Renminbi to U.S. dollars at the rate of Rmb 8.0702 = US$1.00, the Company has included translation of amounts from Renminbi to U.S. dollars in this filing at the same rate so as to provide comparable information.

2

Table of Contents

Form 20-F/A (Amendment No. 1)

PART I

ITEM 3. KEY INFORMATION.

Selected Financial Data

The selected financial information 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 the Company s audited consolidated financial statements and the notes thereto included in this Annual Report. The consolidated financial statements of the Company are prepared in conformity with US GAAP.

The Company s main operating asset is its 76.4% ownership interest in Yuchai. As a result, the Company s financial condition and results of operations depend primarily upon Yuchai s financial condition and results of operations, and the implementation of the Reorganization Agreement with respect to the restructuring of the Company s investment in Yuchai, described elsewhere herein (see Item 4. Information on the Company Recent Developments and Item 8. Financial Information Legal Proceedings).

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. Pursuant to this plan, the Company has looked for new business opportunities to seek to reduce its financial dependence on Yuchai, which has historically been the Company s main operating asset.

In March 2005, the Company completed an acquisition of approximately 14.99% of TCL, a China-focused electronics distribution company, for approximately S$30.9 million (approximately $18.9 million, based on an exchange rate of S$1.637 to US$1.00). The Company subsequently increased its minority stake in TCL, and as of December 31, 2005 the Company s shareholding in TCL was 15.99%. The Company has also recently invested in LKN, a company primarily engaged in the business of investment holding and hospitality-related businesses, pursuant to the Company s business expansion and diversification plan.

In February 2006, the Company acquired debt and equity in LKN for an aggregate consideration of approximately S$131.6 million (approximately $81.2 million, based on an exchange rate of S$1.62 to US$1.00), divided into 191,413,465 ordinary shares representing approximately 29.13% of the total number of ordinary shares in issue; 123,010,555 redeemable convertible preference shares in the capital of LKN; and approximately S$129.4 million (approximately US$79.9 million, based on an exchange rate of S$1.62 to US$1.00) in principal amount of outstanding secured non-convertible bonds issued by LKN. For further information on the TCL and LKN minority investments, see Item 4. Information on the Company History and Development Minority Investments .

3

Table of Contents

Form 20-F/A (Amendment No. 1)

The selected consolidated balance sheet data as of December 31, 2004 and 2005 and the selected consolidated statement of operations data and selected consolidated statement of cash flow data of the Company set forth below for the years ended December 31, 2003, 2004 and 2005 are derived from the consolidated financial statements of the Company included in this Annual Report, which have been audited by KPMG, Independent Registered Public Accounting Firm, and which we refer to in this Form 20-F/A as the Consolidated Financial Statements. Certain selected consolidated balance sheet data as of December 31, 2005 and certain selected consolidated statement of operations data for the year ended December 31, 2005 have been restated to reflect the adjustments to correct accounting errors described above and in Note 2A to the Consolidated Financial Statements. The selected consolidated balance sheet data of the Company set forth below as of December 31, 2001, 2002 and 2003 and the consolidated statement of operations data and consolidated statement of cash flow data for the years ended December 31, 2001 and 2002 are derived from the consolidated financial statements of the Company, which have also been audited by KPMG, but are not included in this Annual Report.

	As of and for the Year Ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2005**
	Rmb	**Rmb**	**Rmb**	**Rmb**	**Rmb**	**US$(3)**
					Restated	
			(in thousands)			
Consolidated Statement of Operations Data:						
Revenues, net	1,783,329	3,513,047	4,569,950	5,582,095	5,816,740	720,768
Gross profit	599,926	1,141,967	1,377,156	1,575,209	1,143,383	141,680
Research and development costs	(44,721)	(75,532)	(94,594)	(136,960)	(123,793)	(15,340)
Provision for uncollectible loans to a related party					(202,950)	(25,148)
Operating income	295,115	640,307	721,411	779,929	26,020	3,224
Earnings / (loss) before income taxes and minority interests	269,189	625,450	696,906	753,854	(25,090)	(3,109)
Income taxes	63,584	(83,242)	(112,924)	(105,165)	(10,148)	(1,257)
Income / (loss) before minority interests	332,773	542,208	583,982	648,689	(35,238)	(4,366)
Minority interests in (income) losses of consolidated subsidiaries	(82,386)	(129,775)	(145,800)	(157,292)	2,947	365
Net income / (loss)	250,387	412,433	438,182	491,397	(32,291)	(4,001)
Basic and diluted earnings / (loss) per common share	7.09	11.67	12.40	13.90	(0.89)	(0.11)
Weighted average number of shares	35,340	35,340	35,340	35,340	36,460	36,460
Consolidated Balance Sheet Data (at year end):						
Working capital(1)	1,100,462	1,340,832	1,031,830	1,402,226	823,324	102,019
Goodwill	212,636	212,636	212,636	212,636	212,636	26,348
Total assets	3,262,868	3,985,459	4,033,632	5,384,248	6,679,630	827,690
Long-term bank loans, excluding current instalments	180,000	50,000		100,000	50,000	6,196
Minority interests	420,545	487,491	544,526	724,311	654,687	81,124
Common stock	30,349	30,349	30,349	30,349	31,945	3,958
Stockholders equity	1,805,045	2,161,903	1,991,687	2,483,084	2,566,263	317,991
Consolidated Statement of Cash Flows Data:						
Net cash provided by operating activities	59,273	659,500	1,075,274	589,608	242,674	30,070
Capital expenditures(2)	43,043	174,850	372,775	552,902	515,359	63,860
Depreciation and amortization	113,680	118,872	125,519	132,789	144,672	17,927

4

Table of Contents

Form 20-F/A (Amendment No. 1)

(1) Current assets (including cash) less current liabilities.

(2) Purchase of property, plant and equipment, lease prepayment and payment for construction in progress.

(3) The Company s functional currency is the U.S. dollar and its reporting currency is Renminbi. In its prior filings, the Company incorrectly disclosed Renminbi, instead of the U.S. dollar, as its functional currency. The functional currency of Yuchai is the Renminbi. The translation of amounts from Renminbi to U.S. dollars is solely for the convenience of the reader. Translation of amounts from Renminbi to U.S. dollars has been made at the rate of Rmb 8.0702 = US$1.00, the rate quoted by the People s Bank of China at the close of business on December 30, 2005. No representation is made that the Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate or at any other rate prevailing on December 30, 2005 or any other date. The Renminbi has appreciated against the U.S. dollar since December 30, 2005. The rate quoted by the People s Bank of China at the close of business on May 15, 2008 was Rmb 7.0000 = US$1.00. Since the previously filed Annual Report on Form 20-F for the year ended December 31, 2005 included translation of amounts from Renminbi to U.S. dollars at the rate of Rmb 8.0702 = US$1.00, the Company has included translation of amounts from Renminbi to U.S. dollars in this filing at the same rate so as to provide comparable information.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

Restatement Of Previously Issued 2005 Consolidated Financial Statements

As described in Note 2A to the Consolidated Financial Statements included in this filing, the Company has restated its previously issued consolidated financial statements for the year ended December 31, 2005. See Note 2A for more detailed information. The information in this discussion and analysis reflects this restatement, but is not otherwise updated.

The Company s 2005 Consolidated Financial Statements have been restated to reflect the following correcting adjustments:

Accounts Payable

At the time of preparing the financial statements of Yuchai for 2005, Yuchai management erroneously recorded adjustments in the amount of Rmb 167.8 million to the general ledger to reduce the amounts payable for goods received, but for which invoices were not yet received (referred to as GRIR). The correcting adjustments have now been made with the following impact on the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005:

Trade accounts payable as of December 31, 2005 has been increased by Rmb 167.8 million (US$20.8 million),

Inventories, net as of December 31, 2005 has been increased by Rmb 45.1 million (US$5.6 million), and

Cost of goods sold for the year ended December 31, 2005 has been increased by Rmb 122.7 million (US$15.2 million).

Other Adjustments

During the course of finalizing the Rmb 167.8 million Adjustment, the Company s management identified certain other accounting errors that were not previously known. The Company s management has decided to correct these other accounting errors as well as the previously known immaterial uncorrected audit adjustments

5

pertaining to its 2005 consolidated financial statements. Appropriate correcting adjustments have been made and are reflected in the restated 2005 consolidated financial statements of the Company. The net impact of these other adjustments and the effects on income taxes and minority interests for all correcting adjustments, including the Rmb 167.8 million Adjustment, is an increase in the Company s previously reported consolidated net income for the year ended December 31, 2005 by approximately Rmb 21.9 million (US$2.7 million).

1. *Taxes*. As a result of an audit by the local tax authority, it was determined that Yuchai had incorrectly calculated its VAT liability and that an additional Rmb 8.3 million of VAT was owed by Yuchai. It was also determined that Yuchai had under-provided for its income tax recoverable by Rmb 2.5 million for the year ended December 31, 2005. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

2. *Provision for bonuses*. In 2005, Yuchai did not reach its stated targets to trigger the payment of bonuses. However, even though stated bonus targets had not been reached, Yuchai recognized accrued bonuses in its previously issued financial statements. Subsequently, the Compensation Committee approved bonus amounts that were lower than the previously recognized amounts. Accordingly, the excess bonus in the amount of Rmb 6.2 million that Yuchai had recognized has now been reversed. In addition, it was determined that there was an over-payment of bonuses in the amount of Rmb 3.7 million. This amount represents the amount to be recovered from the recipients of the bonuses, of which Rmb 3.0 million has already been returned to the Company. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

3. *Depreciation of fixed assets*. The Company s management discovered that certain fixed assets of Yuchai continued to be depreciated even though their net book values had been reduced to zero. This resulted in an over-depreciation of Rmb 6.6 million. This over-depreciation has been reversed to correct the error. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

4. *Volume discounts*. Yuchai provides discounts to those customers who meet previously-agreed volumes and whose accounts receivable with Yuchai at the year-end meet certain criteria. The Company s management discovered that for some of Yuchai s customers, discounts earned for 2005 in the amount of Rmb 12.7 million had not been recognized in Yuchai s 2005 financial statements. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

5. *Impairment of fixed assets*. The Company s management discovered that certain fixed assets of Yuchai were idle or other factors existed that suggested that the recovery of their respective carrying values may have been impaired. Upon further evaluation, it was determined that a provision for impairment of Rmb 4.9 million was required. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

In addition, with respect to certain fixed assets of Yuchai that continued to be held and used, the Company s management corrected the residual value and remaining useful life assumptions for such fixed assets. These assumptions have been updated effective January 1, 2005, which resulted in an additional depreciation expense of Rmb 6.5 million. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005.

6. *Other Accounts Payable Adjustment for GRIR balance*. Other adjustments have been made to the GRIR balance at December 31, 2005, which represents the amounts payable for goods received in 2005 but for which invoices had not been received at December 31, 2005, based on suppliers invoices that were subsequently received by the Company. The correcting adjustments have been made to the Company s Consolidated Financial Statements as of and for the year ended December 31, 2005. This adjustment has resulted in an increase in the Company s previously reported consolidated earnings before income taxes and minority interests for 2005 by approximately

Rmb 4.8 million.

7. *Previously Known Unadjusted Audit Adjustments.* The Company s management has also decided to correct previously known immaterial uncorrected audit adjustments pertaining to the 2005 consolidated financial statements. The net impact of these adjustments is a decrease in the Company s previously reported consolidated earnings before income taxes and minority interests for the year ended December 31, 2005 by approximately Rmb 4.6 million.

8. *Effect on Income Taxes and Minority Interests.* As a result of the above corrections, including the Rmb 167.8 Adjustment, certain adjustments were made to reflect their impact on income taxes, which was Rmb 8.2 million (US$1 million) and minority interests, which was Rmb 30.8 million (US$3.8 million), in the Company s 2005 consolidated financial statements.

Summary

As a result of all these adjustments, the Company s consolidated financial results have been restated to report a net loss of Rmb 32.3 million (US$4.0 million) instead of the previously reported net income of Rmb 68.5 million (US$8.5 million).

Overview

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto contained in this Annual Report. The consolidated financial statements of the Company are prepared in conformity with US GAAP.

During the fiscal years ended December 31, 2003, 2004 and 2005, the Company s main asset has been its 76.4% ownership interest in Yuchai. As a result, the Company s financial condition and results of operations have depended primarily upon Yuchai s financial condition and results of operations. The Company acquired its initial 51.3% interest in Yuchai effective April 1, 1993, increased its interest to 71.4% in November 1994 through the China Everbright Purchase and then to 76.4% in December 1994 by purchasing additional Yuchai Shares with the net proceeds of its initial public offering. The Company s historical results of operations differ from those of Yuchai, primarily as a result of amortization of goodwill prior to 2002 which arose in connection with the three investments in Yuchai s equity, additional operating expenses and the minority interest of other Yuchai shareholders in Yuchai s income. In future financial periods, the Company s financial condition, results of operations, business and prospects may differ significantly from Yuchai, depending upon, among other things, the implementation of the Company s new business expansion and diversification plan and the consummation of the spin-off contemplated in the Reorganization Agreement (see Item 4. Information on the Company Recent Developments). For example, in March 2005, the Company through its wholly-owned subsidiary, VDL, acquired an approximate 14.99% interest in TCL, VDL further acquired another 1.00% interest of the total number of TCL Shares in issue. As a result, the Company held a 15.99% stake in TCL as of December 31, 2005. The Company accounts for its investment in TCL using the equity method and the Company has reflected its proportionate share of TCL s losses in its consolidated statement of income since March 2005.

The various austerity measures taken by the Chinese government over the last decade to regulate economic growth and control inflation have at times dampened demand for trucks in China. In particular, austerity measures that restricted access to credit and slowed the rate of fixed investment (including infrastructure development) adversely affected demand for, and production of, trucks and other commercial vehicles. Such market conditions, together with increased competition in the diesel engine market, resulted in various degrees of financial and marketing difficulties for diesel engine producers, including the Company. However, the Chinese government announced in 1998 a major initiative to boost consumer demand through investments in infrastructure projects, including the construction of highways and tollways, and also through increased availability of bank credit. As a result, demand for trucks and other commercial vehicles, and thus demand for diesel engines has been increasing annually since 1999 to 2004.

Table of Contents

Form 20-F/A (Amendment No. 1)

Although demand for commercial vehicles in China declined by approximately 1.0% in 2005, the Company s net revenues in 2005 increased by 4.2% to Rmb 5,816.7 million (US$720.8 million) compared to Rmb 5,582.1 million in 2004. This increase was primarily a result of higher unit sales of the 4-Series light-duty diesel and industrial engines. The Company had a loss before minority interests of Rmb 35.2 million (US$4.4 million) in 2005 compared to income before minority interests of Rmb 648.7 million in 2004. The decrease in income before minority interests was primarily due to reduced gross margins, higher selling, general and administrative expenses, and compounded by the specific provision made of Rmb 203.0 million (US$25.1 million) for non-trade loans to a related party (see also Note 5 to the Company s Consolidated Financial Statements). Sales of the 6108 medium-duty and 6112 heavy-duty engines accounted for 13.9% and 13.5%, respectively, of the Company s net revenues in 2005. Sales of the 6L and 6M heavy-duty diesel engines accounted for 0.8% and 2.5%, respectively, of the Company s net revenues in 2005. Due mainly to the credit tightening by banks in China, there are more customers buying the light-duty diesel engines and industrial engines because the coverage selling price of these light-duty diesel and industrial engines are lower than the medium and heavy-duty engines.

In 2005, the Company continued its efforts to control production costs and operating expenses. However, a large portion of the Company s costs and expenses relate to fixed costs incurred in connection with the production of its diesel engines, which limits the Company s ability to significantly reduce its costs and expenses. The Company s cost of goods sold mainly includes cost of materials consumed, factory overhead, direct labor and depreciation. The Company analyzes its cost of goods sold based on its cost of manufacturing for each period. Cost of manufacturing for each period equals cost of goods sold for the period plus or minus the change in period end finished goods inventory. In 2005, cost of materials consumed accounted for approximately 84.4% of the cost of manufacturing. The Company s selling, general and administrative, or SG&A, expenses include advertising expenses, provision for doubtful accounts, salaries and wages, freight charges, sales commission expenses and a large number of smaller expenses.

The Company had effective income tax rates of 16.2% and 14.0% in 2003 and 2004, respectively. In 2005, the Company had income tax expense of Rmb 10.1 million (US$1.3 million) comprising current tax expense of Rmb 30.2 million (US$3.7 million), offset by a deferred tax credit of Rmb 20.1 million (US$2.5 million). Yuchai was subject to PRC income tax at a rate of 24.0% of its income determined in accordance with PRC GAAP in 1993 prior to the restructuring. After becoming a Sino-foreign joint stock company, it was exempt from PRC income tax in 1994 and 1995. Under current laws, Yuchai is subject to PRC income tax at a rate of 7.5% for each of the three years from 1996 to 1998 and a rate of 10.0% for each of the three years from 1999 to 2001. Since January 1, 2002, Yuchai is subject to tax at a rate of 15.0% so long as it continues to qualify as a foreign-invested enterprise eligible for tax reductions under PRC income tax law. In addition to the PRC income tax, Yuchai has been subject to value-added taxes on its sales since January 1, 1994. Dividends received by the Company from Yuchai can be remitted from China without any PRC taxation under current Chinese law. See Item 10. Additional Information Taxation People s Republic of China Taxation .

The Company commenced trial marketing of its 6112 heavy-duty engine in early 1999, and began commercial production of these engines during the second half of 1999. Due to the delay in commercial production of the 6112 engine until 1999, however, the Company was not able to benefit from the competitive advantages of an early entry into the domestic market for heavy-duty engines. Moreover, the market for heavy-duty diesel engines in China is relatively price sensitive. With increasing customer acceptance of the 6112 engine in late 2001 through 2003, the sales volume of the 6112 engine improved significantly. Yuchai intends to continue to manufacture its 6112 heavy-duty diesel engines although there has been a decline in unit sales in 2005 mainly due to changes in customers demand to light-duty diesel engines. In 2005, the sales volume of the 6112 engine was 14,788 units, which was lower than 24,073 units in 2004, due to shrinking demand arising from the Chinese government s measures to tighten the credit supply within the banking sector in China as part of its efforts to minimize overheating of the economy. This situation has led to Yuchai s customers buying more of the

Table of Contents

Form 20-F/A (Amendment No. 1)

cheaper light-duty diesel engines as compared to the more expensive heavy-duty diesel engines. There can be no assurance that Yuchai will be able to compete successfully in the heavy-duty diesel engine market in China with the existing producers (such as Weichei Power Co., Ltd.) or any new entrants.

The Company s future financial condition and results of operations could be adversely affected as a result of China s admission into the WTO. See Item 3. Key Information Risk Factors Risks relating to Mainland China The admission of China into the WTO could lead to increased foreign competition . Currently, China is encouraging foreign investments into the motor vehicle engine manufacturing industry. However, the Company believes that the possible adverse impact of foreign competition as a result of China becoming a member of the WTO would likely be mitigated by a number of factors, including, (i) foreign diesel engines are not generally price competitive in the domestic China market, (ii) foreign producers do not have the sales and distribution network or service and parts center infrastructure of Chinese producers and (iii) while China s import tariffs on motor vehicle components may be lowered, China has indicated that it does not intend to eliminate such tariffs.

The Company s future financial condition and results of operations could also be adversely affected as a result of China macroeconomic policy changes recently announced by the Chinese government. The Chinese government has announced that it is considering additional measures in certain sectors to avoid overheating of the economy, including tightening bank lending policies and increases in bank interest rates. The market demand for diesel engines in China may be adversely affected by these measures, particularly if diesel engines are included in any specific economic sectoral caps or attempts to slow down sectoral lending. See Item 3. Key Information Risk Factors Risks relating to Mainland China Adverse changes in the economic policies of the Chinese government could have a material adverse effect on the overall economic growth of Mainland China, which could reduce the demand for our products and adversely affect our competitive position and 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 economy, as well as Chinese government policy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese economy, as well as Chinese government policies that de-emphasize the use of diesel engines .

Critical Accounting Policies

The preparation of financial statements in accordance with US GAAP require the Company s management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of the Company s assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses. These judgments, assumptions and estimates are reflected in the Company s accounting policies, which are more fully described in Note 3 to the Company s Consolidated Financial Statements appearing elsewhere herein.

Certain of the Company s accounting policies are particularly important to the portrayal of the Company s financial position and results of operations and require the application of significant assumptions and estimates by the Company s management. The Company refers to these accounting policies as its critical accounting policies . The Company s management uses its historical experience and analyses, the terms of existing contracts, historical cost convention, industry trends, information provided by its agents and information available from other outside sources, as appropriate, when forming its assumptions and estimates. However, this task is inexact because the Company s 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.

Table of Contents

Form 20-F/A (Amendment No. 1)

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

- Allowances for doubtful accounts;
- Realization of the carrying value of inventories;
- Product warranty obligations;
- Realization of deferred tax assets;
- Impairment of long-lived assets other than goodwill;
- Provision for loss contingency for guarantee granted by YEGCL; and
- Recoverability of carrying value of investment in TCL.

Allowances for doubtful accounts

Allowance for doubtful accounts is management s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company determines the allowance based on historical write-off experience by industry and national economic data. The Company reviews its allowance for doubtful accounts monthly. In 2005, the Company has examined the debtors ageing report and noted that there was a significant change in the amounts owing by one of its major customers, Dongfeng Group. For the year ended December 31, 2004, the Dongfeng Group accounted for about 28% of the trade debtors outstanding as compared to approximately 12% of the amount owing as of December 31, 2005. Likewise, the top 20 non-Dongfeng Group customers had increased its significance in our sales and accounted for about 44% of the gross debts outstanding at the end of 2005 from 38% at the end of 2004. The Company has noted the customer s trends, repayment patterns and ageing analysis in 2005 which confirmed that the provision policy for doubtful accounts for the year ended December 31, 2004 is no longer appropriate. Therefore, the Company has changed its accounting estimates on allowances for doubtful accounts, taking into account the changes in customers mix. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Changes in the allowances for doubtful accounts for each of the years in the three-year period ended December 31, 2005 are summarized as follows:

	December 31,			
	2003	2004	2005	2005
	Rmb	Rmb	Rmb	US$
	(in thousands)			
Balance at beginning of year	158,075	94,423	107,457	13,315

Add: Charged to consolidated statements of operations		13,034	25,587	3,171
Less: Written back to consolidated statements of operations	(493)			
Doubtful debts written off	(63,159)		(63,997)	(7,930)
Balance at end of year	94,423	107,457	69,047	8,556

The Company believes that the present level of its allowance for doubtful debts 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 the Company s allowance for doubtful debts. If economic or specific industry trends change, the Company would adjust its allowances for doubtful accounts by recording additional expense or benefit. Management studies show that a decrease or increase of 5% in historical write-off experience would increase or decrease the provision for doubtful accounts by approximately Rmb 13.9 million (US$1.7 million).

Realization of the carrying value of inventories

The Company s inventories are valued at the lower of cost or net realizable value at the balance sheet date. Net realizable value represents the estimated selling price less costs to be incurred in selling the inventories. Net realizable value is estimated based on the age and market condition of inventories.

If market conditions or future product enhancements and developments change, the Company would adjust its provision for inventories by recording additional expense or benefit. In the preceding three years, there were no significant differences or adjustments between the book cost and the net realizable or market value. Management studies show that a decrease or increase of 5.0% in historical charge experience would increase or decrease the provision for inventories by approximately Rmb 5.9 million (US$0.7 million).

Product warranty obligations

The Company accrues a liability for estimated future costs to be incurred under a warranty period or warranty mileage on various engine models, for which it provides free repair and replacement. Warranties generally extend for a duration (12 months to 18 months) or mileage (80,000 kilometers to 180,000 kilometers), whichever is the lower. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year-end.

Changes in the accrued product warranty liability for each of the years in the three-year period ended December 31, 2005 are summarized as follows:

	December 31,			
	2003	**2004**	**2005**	**2005**
	Rmb	**Rmb**	**Rmb**	**US$**
		(in thousands)		
Balance at beginning of year	66,864	101,215	126,114	15,627
Add: Provision charged to consolidated statements of operations	162,369	190,205	179,184	22,203
Less: Amounts utilized	(128,018)	(165,306)	(163,172)	(20,219)
Balance at end of year	101,215	126,114	142,126	17,611

The Company s estimate of its warranty obligations is evaluated on an annual basis. In previous years, warranty claims have typically not been higher than the relevant provisions made in the Company s balance sheet. If the nature, frequency and average cost of warranty claims change, the Company would adjust its 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. Management studies show that a decrease or increase of 5.0% in historical utilization experience would increase or decrease the provision for product warranty by approximately Rmb 8.2 million (US$1.0 million).

Realization of deferred tax assets

Deferred tax assets are reduced by a valuation allowance to the extent the Company concludes it is more likely than not that the assets will not be realized. This valuation allowance is an estimate of the difference between the actual existing and future realizable deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary

Table of Contents

differences become deductible, tax credits and tax losses carried forward utilized. Management considers the scheduled reversal of deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. Forecasted taxable income may significantly differ from actual taxable income in future years, which may result in material revisions to the valuation allowance of deferred tax assets. Differences in actual results from available evidence used in determining the valuation allowances could result in future adjustments to the allowance. The realization of the deferred tax assets is subject to specific PRC tax regulations and not solely dependent on generating future taxable income. For example, tax credits relating to the purchase of domestic equipment may not be fully utilized as the amount entitled for deduction each year is limited to the incremental current income tax expense of the subsidiary compared to the income tax of the subsidiary for the year before the domestic equipment was purchased. Tax credit may also have a validity period. It is therefore possible that a subsidiary has a taxable income but unable to utilize the deferred tax benefit brought forward, if any. Tax losses incurred by certain subsidiaries are not likely to be realized in the future in connection with the assessment for valuation allowance. Based on management s forecast of future taxable income, the Company views the recoverability of the deferred tax assets, net of existing valuation allowances, as more likely than not to be realizable. In addition, based upon the results of prior years taxable income and projections for future taxable income over the next five years in which the deferred tax assets are deductible and tax losses carried forward, management believes the Company will realize the benefits of these deductible differences and tax losses carried forward as of December 31, 2005. Deferred tax assets which were not probable to be realized had been subjected to valuation allowance. For the years ended December 31, 2003 and 2004, no deferred tax asset valuation allowance was provided. For the year ended December 31, 2005, management concluded that a deferred tax asset valuation allowance of Rmb 45.2 million (US$5.6 million) was necessary. This valuation allowance is primarily for tax credits that management believes will expire unused.

Forecasted taxable income may significantly differ from actual taxable income in future years, which may result in material adjustment to the valuation allowance for deferred tax assets.

Impairment of long-lived assets, other than goodwill

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Company has conducted a review on the conditions of the property, plant and equipment. In 2003, management identified that certain property, plant and equipment would no longer be used in production due to the introduction of new environmental regulations in 2003. These changes required an impairment analysis to be performed. The estimated undiscounted future cash flows generated from such property, plant and equipment were less than their carrying value. The carrying value of such assets was therefore reduced to estimated fair value. Since there was no active second hand resale market for these items relating to property, plant and equipment, management has adopted the discounted cash flow model to determine their fair value. An impairment loss of Rmb 12.4 million has been charged to the consolidated statement of operations in 2003 under selling, general and administrative expense. In 2004, the Company did not identify any circumstances indicating that the carrying value of the property, plant and equipment may not be recoverable, and hence no impairment loss was recognized. In 2005, it was determined that certain fixed assets of Yuchai were idle or other factors existed that suggested that the recovery of their respective carrying values may have been impaired. An impairment loss of Rmb 4.9 million (US$0.6 million) has been charged to the consolidated statement of operations in 2005 under selling, general and administrative expense.

If the estimates of cash flows and fair value of these long-lived assets change, management studies show that a 5.0% variance in historical charge experience would not have any significant impact to the Company s financial statements.

Provision for loss contingency for guarantee granted by YEGCL

YEGCL guaranteed borrowings of Rmb 7.6 million and Rmb 178.5 million (US$22.1 million) granted by commercial banks to unrelated parties in 2004 and 2005, respectively. The borrowings are due in equal monthly or quarterly instalments through one to two years. The guarantees were made to individual persons who applied for mortgage loans from commercial banks to purchase automobiles equipped with diesel engines produced by Yuchai. The guarantees are for the entire amount and term of the borrowings. In return, YEGCL receives a premium fee amounted to 2% to 8% of the amount of borrowings. All guarantees are secured by automobiles at a net book value totaling Rmb 11.7 million and Rmb 242.2 million (US$30.0 million) as of December 31, 2004 and 2005, respectively. If the individual defaults on payment, YEGCL would have to perform under the guarantees. It is reasonably possible that YEGCL would be required to make payment under its guarantees. As of December 31, 2004 and 2005, the maximum amount of undiscounted payments that YEGCL would have to make in the event of default is Rmb 7.4 million and Rmb 134.2 million (US$16.6 million). Pursuant to the requirements of FIN 45, the Company accrued Rmb 0.2 million and Rmb 16.8 million (US$2.1 million) related to its stand ready obligation under the guarantee arrangement in 2004 and 2005, respectively. In assessing the contingent liability, management considered the probable recoverable amount of the secured automobiles and the customers deposits against its obligations to the banks for the defaulted payments from the customers. The Company has assessed that there is a risk exposure relating to default by customers on the expected future payments and therefore such a provision for loss contingency is required. The amount recognized during the year ended December 31, 2004 and 2005 includes premium received or receivable, which is amortized on a straight line basis over the terms of the guarantees, of Rmb 220.0 million and Rmb 4.5 million (US$0.6 million), respectively. The amount of premium being amortized, which were recorded as revenue, for the year ended December 31, 2004 and 2005 were amounted to Rmb 0.01 million and Rmb 1.2 million (US$0.1 million), respectively. The remaining balance of Rmb 12.3 million (US$1.5 million) as of December 31, 2005 represents the provision for loss contingency related to the guarantees where payment by the Company was probable.

Recoverability of carrying amount of investment in TCL

The Company acquired a 15.99% equity ownership interest in TCL in 2005 as part of its diversification plan to include new businesses, other than Yuchai. The total purchase consideration was S$32.3 million, which approximates S$0.12 per share. The market price of TCL shares traded on the Singapore Exchange has fallen to S$0.08 on December 31, 2005 and was S$0.085 per share on July 31, 2006. Management of the Company has assessed and deemed the impairment to be temporary in nature and the Company has the ability and intent to hold its investment in TCL for a period that should allow it to recover its carrying value. Accordingly, no provision for impairment is required.

Using the quoted market price at December 31, 2005, the TCL investment was valued at S$22.5 million (Rmb 109.0 million based on an exchange rate of S$1.00 to Rmb 4.83), compared to our carrying value of S$38.3 million (Rmb 185.0 million based on an exchange rate of S$1.00 to Rmb 4.83). If the Company s management considered such impairment to be other than temporary, an impairment provision would have been recognized and income before income taxes and minority interest would have been reduced by Rmb 76.0 million (US$9.4 million based on an exchange rate of Rmb 8.0957 to US$1.00) for the year ended December 31, 2005.

Table of Contents

Form 20-F/A (Amendment No. 1)

Results of Operations

The following table sets forth the percentages of net revenues of certain income and expense items of the Company for the last three fiscal years ended December 31, 2003, 2004 and 2005, respectively:

	Percentage of Net Revenues Year Ended December 31,		
	2003	**2004**	**2005 Restated**
Revenues, net	100.0%	100.0%	100.0%
Cost of goods sold	69.9%	71.8%	80.3%
Gross profit	30.1%	28.2%	19.7%
Research and development costs	2.1%	2.5%	2.1%
Selling, general and administrative expenses	12.3%	11.8%	13.6%
Provision for uncollectible loans to a related party			3.5%
Operating income	15.8%	14.0%	0.4%
Interest expense	0.5%	0.6%	1.2%
Other (expenses)/income, net	0.0%	0.1%	0.4%
Earnings / (loss) before income taxes and minority interests	15.2%	13.5%	(0.4)%
Income taxes	2.5%	1.9%	(0.2)%
Income / (loss) before minority interests	12.8%	11.6%	(0.6)%
Minority interests in income of consolidated subsidiaries	3.2%	2.8%	0.1%
Net income / (loss)	9.6%	8.8%	(0.6)%

2005 Compared to 2004

Net revenue increased by 4.2% to Rmb 5,816.7 million (US$720.8 million) in 2005 compared to Rmb 5,582.1 million in 2004. The increase in net revenue was primarily due to higher sales volume arising from more aggressive marketing programs. Unit sales of diesel engines increased by 11.4% to 230,228 units in 2005 from 206,628 units in 2004 and this unit sales increase came mainly from higher sales of the 4-Series light-duty diesel engines and 6105 medium-duty diesel engines. In 2005, net revenues of the 4-Series light-duty diesel engines increased by approximately 31.0% and net revenues of the 6105 medium-duty engines increased by approximately 52.6% as compared to 2004.

Cost of goods sold increased by 16.6% to Rmb 4,673.4 million (US$579.1 million) in 2005 from Rmb 4,006.9 million in 2004, and increased as a percentage of net revenues to 80.3% in 2005 from 71.8% in 2004. Cost of manufacturing increased by 18.4 % to Rmb 4,517.0 million (US$559.8 million) in 2005 from Rmb 3,816.7 million in 2004, and increased as a percentage of net revenue to 77.7% in 2005 from 68.4% in 2004. Cost of materials consumed included in costs of manufacturing increased by 20.6% to Rmb 3,812.4 million (US$472.4 million) in 2005 from Rmb 3,159.9 million in 2004 (due to higher production during 2005, while cost of materials consumed as a percentage of net revenue increased to 65.5% in 2005 from 56.6% in 2004. Factory overhead (which does not include depreciation and salaries) included in cost of manufacturing decreased by 2.4% to Rmb 409.0 million (US$50.7 million) in 2005 from Rmb 419.2 million in 2004, due to lower variable factory expenses. The factory overhead as a percentage of net revenue decreased to 7.0% in 2005 from 7.5% in 2004. Depreciation included in cost of manufacturing increased to Rmb 90.4 million (US$13.7 million) from Rmb 84.9 million in 2004. Depreciation as a percentage of net revenue increased to 1.6% in 2005 from 1.5% in 2004.

Gross profit decreased by 27.4% to Rmb 1,143.4 million (US$141.7 million) in 2005 from Rmb 1,575.2 million in 2004. Gross profit margin (gross profit divided by net revenue) decreased to 19.7% in 2005 compared to 28.2% in 2004, reflecting a shift in the sales mix whereby the gross margin for the 4-Series and industrial engines were lower than margins historically achieved for both medium and heavy-duty engines.

Table of Contents

Form 20-F/A (Amendment No. 1)

SG&A expenses (excluding research and development) increased by 20.5% to Rmb 793.2 million (US$98.3 million) in 2005 from Rmb 658.3 million in 2004 and increased as a percentage of net revenue from 11.8% in 2004 to 13.6% in 2005. This increase in SG&A was primarily due to the increase in sales, legal and professional costs and allowance for doubtful accounts on trade accounts receivable. Research and development expenses decreased to Rmb 123.8 million (US$15.3 million) in 2005 from Rmb 137.0 million in 2004. Advertising expenses included in SG&A decreased by 7.0% to Rmb 45.3 million (US$5.6 million) in 2005 from Rmb 48.7 million in 2004. Advertising expenses as a percentage of net revenue decreased to 0.8% in 2005 from 0.9% in 2004. Sales commission expenses included in SG&A expenses increased by 239.7% to Rmb 39.4 million (US$4.9 million) in 2005 from Rmb 11.6 million in 2004. Sales commission expenses as a percentage of net revenues increased to 0.7% in 2005 from 0.2% in 2004. The decrease in advertising is mainly due to lower spending on television and road signboard advertising. The increase in sales commissions is mainly due to higher commission given to promote the sales of new products such as 6L and 6M heavy duty diesel engines.

Included in the 2005 income statement is a provision for non-trade loans to a related party of Rmb 203.0 million (US$25.1 million). See Note 5 to the Company s Consolidated Financial Statements. Salaries and wages as a percentage of net revenues was 7.9% in 2005 and 7.4% in 2004. As a result of the foregoing, profits from operations decreased to Rmb 26.0 million (US$3.2 million) in 2005 compared to Rmb 779.9 million in 2004.

Interest expenses increased by 122.1% to Rmb 70.5 million (US$8.7 million) in 2005 from Rmb 31.8 million in 2004, primarily due to increase in bank borrowings.

Loss before income taxes and minority interests in 2005 was Rmb 25.1 million (US$3.1 million), as compared to a profit of Rmb 753.9 million in 2004. Income tax expense in 2005 was Rmb 10.1 million (US$1.3 million) compared to income tax expense of Rmb 105.2 million in 2004. Yuchai was subject to PRC income tax at a rate of 15.0% in both 2004 and 2005. The effective tax rates of Yuchai were 14.0% and 40% for 2004 and 2005 respectively. The increase in the effective tax rate for 2005 was primarily due to additional non-deductible expenses for tax purposes.

As a result of the foregoing factors, the Company had a loss before minority interests of Rmb 35.2 million (US$4.4 million) in 2005 compared to income before minority interests of Rmb 648.7 million in 2004, and a net loss of Rmb 32.3 million (US$4.0 million) in 2005 compared to a net income of Rmb 491.4 million in 2004.

As described above, a provision of Rmb 203.0 million (US$25.1 million) has been made for non-trade loans to a related party. Excluding the impact of this provision, the Company s net income for the year ended December 31, 2005 would be Rmb 170.7 million (US$21.1 million).

2004 Compared to 2003

Net revenue increased by 22.1% to Rmb 5,582.1 million in 2004 compared to Rmb 4,570.0 million in 2003. The increase in net revenue was primarily due to higher sales volume arising from more aggressive marketing programs. Unit sales of diesel engines increased by 20.0% to 206,628 units in 2004 from 172,219 units in 2003 and this unit sales increase came mainly from higher sales of the 4-Series light-duty diesel engines and 6112 heavy-duty diesel engines. In 2004, net revenues of the 4-Series light-duty diesel engines increased by approximately 54% and net revenues of the 6112 heavy-duty engines increased by approximately 20% as compared to 2003.

Cost of goods sold increased by 25.5% to Rmb 4,006.9 million in 2004 from Rmb 3,192.8 million in 2003, and increased as a percentage of net revenues to 71.8% in 2004 from 69.9% in 2003. Cost of manufacturing increased by 27.5% to Rmb 3,816.7 million in 2004 from Rmb 2,993.7 million in 2003, and increased as a percentage of net revenue to 68.4% from 65.5% in 2003. Cost of materials consumed in costs of manufacturing increased by 27.4% to Rmb 3,159.9 million in 2004 from Rmb 2,479.9 million in 2003 (due to higher production throughput during 2004), while cost of materials consumed as a percentage of net revenue increased to 56.6% in 2004 from 54.3% in 2003. Factory overhead (which does not include depreciation and salaries) included in cost of manufacturing increased by 118.4% to Rmb 419.2 million in 2004 from Rmb 191.9 million in 2003, due to higher variable factory expenses (such as utilities) arising from higher diesel engine production in 2004. The factory overhead as a percentage of net revenue similarly increased to 7.5% for 2004 and 4.2% for 2003. Depreciation included in cost of manufacturing decreased to Rmb 84.9 million from Rmb 88.7 million in 2003. Depreciation as a percentage of net revenue decreased to 1.5% in 2004 from 1.9% in 2003.

Gross profit increased by 14.4% to Rmb 1,575.2 million in 2004 from Rmb 1,377.2 million in 2003. Gross profit margin (gross profit divided by net revenue) decreased to 28.2% in 2004 compared to 30.1% in 2003, reflecting a shift in the sales mix whereby the gross margin for the 4-Series and industrial engines were lower than margins historically achieved for both medium and heavy-duty engines.

SG&A expenses (excluding research and development) increased by 17.3% to Rmb 658.3 million in 2004 from Rmb 561.2 million in 2003 and decreased as a percentage of net revenue from 12.3% in 2003 to 11.8% in 2004. This increase in SG&A was primarily due to the increase in sales. Research and development expenses increased to Rmb 137.0 million in 2004 from Rmb 94.6 million in 2003. Such increased expenses were primarily due to the development of the 6L engines and Euro II compliance. Advertising expenses included in SG&A increased by 18.8% to Rmb 48.7 million in 2004 from Rmb 41.0 million in 2003. Advertising expenses as a percentage of net revenue decreased to 0.9% in 2004 from 0.90% in 2003. Sales commission expenses included in SG&A expenses decreased by 30.5% to Rmb 11.6 million in 2004 from Rmb 16.7 million in 2003. Sales commission expenses as a percentage of net revenues decreased to 0.2% in 2004 from 0.4% in 2003. The increase in advertising and decrease in sales commission expenses reflected primarily higher costs incurred for the promotion of the 6L and 6M engines in 2004 and the change in Yuchai s promotion strategies by offering lower selling prices to customers rather than through sales commission paid to its sales agents. Salaries and wages as a percentage of net revenues was 7.4% in 2004 and 7.5% in 2003. In 2003, management identified that certain property, plant and equipment were no longer used in production due to the introduction of new environmental regulations in 2003. These changes required an impairment analysis to be performed in accordance with SFAS No. 144. The estimated undiscounted future cash flows generated from such property, plant and equipment were less than their carrying value. The carrying value of such assets was therefore reduced to estimated fair value. Impairment loss of Rmb 12.4 million has been charged to income statements in 2003. In 2004, the Company has not identified circumstances which indicate that the carrying value of the property, plant and equipment may not be recoverable, hence no impairment loss was recognized. As a result of the foregoing, profits from operations increased to Rmb 779.9 million in 2004 compared to Rmb 721.4 million in 2003.

Interest expenses increased by 34.7% to Rmb 31.8 million in 2004 from Rmb 23.6 million in 2003, primarily due to increase in bank borrowings.

Income before income taxes and minority interests in 2004 was Rmb 753.9 million, as compared to Rmb 696.9 million in 2003. Income tax expenses in 2004 was Rmb 105.2 million compared to income tax expenses of Rmb 112.9 million in 2003. Yuchai was subject to PRC income tax at a rate of 10.0% in 2000 and 2001, and 15.0% in 2002, 2003 and 2004.

As a result of the foregoing factors, the Company had income before minority interests of Rmb 648.7 million in 2004 compared to Rmb 584.0 million in 2003, and net income of Rmb 491.4 million in 2004 compared to Rmb 438.2 million in 2003.

Table of Contents

Form 20-F/A (Amendment No. 1)

Inflation

The general annual inflation rate in China was approximately 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively. The Company s results of operations may be affected by inflation, particularly rising prices for parts and components, labor costs and other operating costs.

Liquidity and Capital Resources

The Company s primary sources of cash are funds from operations generated by Yuchai, as well as debt financing incurred by the Company. The Company s operations provided cash in 2003, 2004 and 2005. The acquisitions of TCL in 2005 and LKN in 2006 were funded from internal cash and external bank borrowings. In 2005, the Company s primary cash requirements were for working capital and capital expenditures to complete the expansion of production capacity. The Company believes that its sources of liquidity are sufficient for its requirements over the next year. Factors which may affect the Company s ability to generate funds from operations include increased competition (including as a result of China s admission to the WTO), fluctuations in customer demand for the Company s products, the Company s ability to collect and control its level of accounts receivable, the status of the Company s investment in Yuchai under Chinese law and the implementation of the Reorganization Agreement (see Item 4. Information on the Company Recent Developments).

As of December 31, 2005, the Company had approximately Rmb 736.2 million (US$91.2 million) in cash on a consolidated basis. The Company believes that if the Company is considered on a stand alone basis without its investment in Yuchai, the Company would find it difficult to raise new capital (either debt or equity) on its own.

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

	December 31,			
	2003 Rmb	2004 Rmb	2005 Rmb	2005 US$
	(in thousands)			
Net cash provided by operating activities	1,075,274	589,608	242,674	30,070
Net cash used in investing activities	(372,373)	(753,367)	(677,215)	(83,915)
Net cash (used in)/provided by financing activities	(714,163)	254,493	452,777	56,105
Effect of foreign currency exchange on cash and cash equivalents			(4,713)	(584)
Net (decrease)/increase in cash and cash equivalents	(11,262)	90,734	13,523	1,676

Net cash flow provided by operating activities decreased by Rmb 346.9 millions between 2004 and 2005. The decrease was principally caused by an increase in inventories, net of Rmb 321.9 million, due to stocking up at the end 2005 to meet expected higher sales in 2006. In addition, the decrease in net cash from operating activities was also partly attributed to increase in trade accounts receivables, net of Rmb 303.3 million and increase in amount due from related companies of Rmb 115.1 million. In addition, there was an increase in trade accounts payable in 2005 of Rmb 710.7 million arising from increased business activities from higher production. Net cash used in investing activities decreased by Rmb 76.2 million in 2005, principally due to repayment of Rmb 205.0 million of loans from a related company and increased in purchased of investments of Rmb 161.4 million. The Rmb 205.0 million loan repaid by the related company (YMLC) was subsequently re-loaned to the same company (see also Note 5 to the Company s Consolidated Financial Statements appearing elsewhere herein). Net cash provided by financing activities increased by Rmb 198.3 million in 2005, mainly due to net increase in net proceeds from bank terms loans of Rmb 1,238.2 million, proceeds from 2% convertible bonds of Rmb 206.9 million and offset by the dividend payment of Rmb 120.3 million made in 2005.

Cash provided by continuing operations is a major source of the Company s liquidity. Other than with respect to the application of cash generated from operations for capital expenditures and dividend payments (see Item 8. Financial Information Policy on Dividend Distributions), the Company does not have a formal cash management policy.

The Company expects that cash generated from operations and credit collection arrangements should provide the Company 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 a result, the Company may use periodic borrowings to supplement its working capital requirements. 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 with reference to the loan limit approved by Yuchai s Board of Directors. Yuchai had outstanding borrowings of Rmb 962.8 million as of December 31, 2005. The interest rate applicable to the amounts borrowed ranges from 4.94% and 5.85% per annum. During its April 2006 board meeting, the Yuchai board of directors approved an increase in this borrowing limit to Rmb 2,000 million. As of June 30, 2006, Yuchai had outstanding borrowings of Rmb 920 million. The Company believes that should there be a need for further loans from banks, Yuchai could seek to drawdown additional amounts up to such limit from the Chinese domestic banks; however, no assurance can be given that such additional borrowings would be approved by such banks.

The Company s working capital as of December 31, 2005 was Rmb 823.3 million compared to Rmb 1,402.2 million as of December 31, 2004. The decrease in working capital was primarily due to the increase of accounts payable by 65.2% to Rmb 1,800.4 million, with higher volume of raw materials and components purchased to meet expected higher sales in 2006. In addition, the increase in total current liabilities was also partly due to increase in borrowings of Rmb 482.8 million. As of December 31, 2005, the Company had long-term debt, including current installments, totaling Rmb 150.0 million, of which Rmb 100.0 million will mature in 2006. The Company had current debt totaling Rmb 812.8 million as of December 31, 2005.

The Company s capital expenditures were Rmb 515.4 million in 2005, Rmb 552.9 million in 2004 and Rmb 372.8 million in 2003. As of December 31, 2005, the Company had authorized and contracted for capital expenditures for improvement to existing production facilities in the amount of Rmb 214.1 million. As the Company s business continues to grow, it will also require additional funds for increased working capital requirements, including to finance increased accounts receivable. The Company expects to fund its capital expenditures and working capital requirements primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank loans incurred by Yuchai and the Company. Yuchai s ability to obtain financing is limited by government regulation and a general shortage of debt and equity financing in China. Any additional capital contribution by the Company to Yuchai would require, among other things, the approval of the MOC, which has broad discretion with respect to such approval.

In February 2005, the Company issued $25.0 million in principal amount of convertible bonds due 2012 in a private placement. The convertible bonds carried interest at 2.0% per annum and matured in 2012, unless redeemed earlier in accordance with their terms. The bonds were convertible by their holders into newly issued ordinary shares of the Company at a conversion price of $12.969 per share, subject to customary adjustments. The bonds were fully converted by their holders in June 2005. Upon conversion, the Company issued 1,927,673 ordinary shares, representing approximately 5.45% and 5.17% of the then existing and enlarged issued share capital of the Company, respectively. The Company received approximately $24.9 million in proceeds from the convertible bond placement after deducting costs and expenses. The proceeds of the offering had been fully utilized to finance the TCL share acquisitions described above.

As an additional source of funding for the Company s business expansion and diversification related activities, the Company had in March 2005, September 2005, January 2006 and March 2006 entered into credit facilities for $25.0 million, $50.0 million, S$60.0 million (approximately US$37.0 million, based on an exchange

Table of Contents

Form 20-F/A (Amendment No. 1)

rate of S$1.62 to US$1.00) and S$110.0 million (approximately US$69.2 million, based on an exchange rate of S$1.59 to US$1.00), respectively, with various banks in Singapore. The Company has drawn down the first three facilities as of June 30, 2006 in connection with its acquisition of shares and bonds in TCL and LKN described above. The purpose of the fourth credit facility is to enable the Company to make further new acquisitions as part of its diversification plans. These facilities aggregate approximately $181.2 million of which $112 million had been drawn down as of June 30, 2006. The terms of these facilities require, among other things, that HLA retains ownership of CYI s Special Share and that CYI remains a consolidated subsidiary of HLA. The terms of these facilities also include certain financial covenants with respect to CYI s tangible net worth and net gearing ratio throughout the tenor of the facility, as well as negative pledge provisions and customary drawdown requirements and events of default.

As part of its business strategy, Yuchai seeks from time to time opportunities to invest in 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. Yuchai may make such investments and acquisitions with funds provided by operations, future debt or equity financings or a combination thereof. Subsequent to December 31, 2005, Yuchai has lodged an application to the People s Bank of China for short-term bonds issuing limit amounting to Rmb 1,000 million (US$124.5 million). The application was approved on May 30, 2006 and is valid until the end of June 2007. Yuchai can issue the bonds in multiple tranches at various dates during the validity period of the approval. Yuchai intends to use these short-term bonds principally to refinance existing indebtedness relating to its working capital requirements.

Yuchai issued the first tranche of Rmb 500 million short-term bonds on June 13, 2006 with a maturity date on March 9, 2007.

The following table sets forth information on the Company s material contractual obligation payments for the periods indicated as of December 31, 2005:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
			(in Rmb millions)		
Short-term debt	913	913			
Long-term debt	50		50		
Purchase Obligations regarding capital expenditure	214	214			
Lease Commitments	6	3	3		
Total	1,183	1,130	53		

Subsequent to December 31, 2005, the Company entered into a number of contractual arrangements that result in additional cash obligations or contingent cash obligations (see Note 34 to the Consolidated Financial Statements).

Off-Balance Sheet Arrangements

The Company currently does not engage in any off-balance sheet arrangements.

Guarantee by YEGCL

YEGCL guaranteed borrowings of Rmb 7.6 million and Rmb 178.5 million (US$22.1 million) granted by commercial banks to unrelated parties in 2004 and 2005, respectively. The borrowings are due in equal monthly or quarterly instalments through one to two years. The guarantees were made to individual persons who applied for mortgage loans from commercial banks to purchase automobiles equipped with diesel engines produced by Yuchai. The guarantees are for the entire amount and term of the borrowings. In return, YEGCL receives a premium fee amounted to 2% to 8% of the amount of borrowings. All guarantees are secured by automobiles at a net book value totaling Rmb 11.7 million and Rmb 242.2 million (US$30.0 million) at December 31, 2004 and 2005, respectively. If the individual defaults on payment, YEGCL would have to perform under the guarantees. It is reasonably possible that YEGCL would be required to make payment under its guarantees. As of December 31, 2004 and 2005, the maximum amount of undiscounted payments that YEGCL would have to make in the event of default is Rmb 7.4 million and Rmb 134.2 million (US$16.6 million). Pursuant to the requirements of FIN 45, the Company accrued Rmb 0.2 million and Rmb 16.8 million (US$2.1 million) related to its stand ready obligation under the guarantee arrangement in 2004 and 2005, respectively. The amount recognized during the year ended December 31, 2004 and 2005 includes premium received or receivable, which is amortized on a straight line basis over the terms of the guarantees, of Rmb 0.2 million and Rmb 4.5 million (US$0.6 million), respectively. The amount of premium being amortized, which were recorded as revenue, for the year ended December 31, 2004 and 2005 were amounted to Rmb 0.01 million and Rmb 1.2 million (US$0.1 million), respectively. The remaining balance of Rmb 12.3 million (US$1.5 million) as of December 31, 2005 represents the provision for loss contingency related to the guarantees where payment by the Company was probable.

Outstanding bills discounted

As of December 31, 2004 and 2005, outstanding bills discounted with banks for which the Company has retained a recourse obligation totaled Rmb 1,117.8 million and Rmb 1,373.7 million (US$170.2 million), respectively.

Outstanding letter of credits

As of December 31, 2004 and 2005, the Company had issued irrevocable letter of credits of Rmb 165.9 million and Rmb 110.3 million (US$13.7 million), respectively.

Except for the above off-balance sheet arrangements, the Company has no other outstanding derivative financial instruments, off-balance sheet arrangements or guarantees.

Recently Issued Accounting Standards

Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47

In March 2005, the FASB issued FIN No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The types of asset retirement obligations that are covered by this interpretation are those for which an entity has a legal obligation to perform an asset retirement activity, however the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ended after December 15, 2005. The initial adoption of FIN 47 did not have an impact on the Company s financial condition and consolidated statements of operations.

FIN No. 48

In June 2005, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for the fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the provisions of FIN 48 to the Company s consolidated financial statements.

Form 20-F/A (Amendment No. 1)

Emerging Issues Task Force (EITF) 04-13

In September 2005, the EITF issued EITF 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty . EITF 04-13 provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a nonmonetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements beginning in the first interim or annual reporting beginning after March 15, 2006. The application of EITF 04-13 is not expected to have a significant impact on the Company s consolidated financial statements.

SFAS No. 151

In December 2004, the FASB issued SFAS No. 151, Inventory Costs , which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under this statement, such items will be recognized as current-period charges. In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement will be effective for the Company for inventory costs incurred on or after January 1, 2006. The initial adoption of this statement will not have a significant effect on the Company s 2006 consolidated financial statements.

SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets , which eliminates an exception in Accounting Principles Board (APB) Opinion No. 29, Accounting for Nonmonetary Transactions , for recognizing nonmonetary exchanges of similar productive assets at fair value and replaces it with an exception for recognizing exchanges of nonmonetary assets at fair value that do not have commercial substance. This statement will be effective for the Company for nonmonetary asset exchanges occurring on or after January 1, 2006. The adoption of this statement will not have a significant effect on the Company s 2006 consolidated financial statements.

SFAS No. 155

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . This statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . This statement resolves issues addressed in SFAS No 133 Implementation and Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets . This statement will be effective for the fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of the statement to the Company s consolidated financial statements.

SFAS No. 156

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 . This statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , with respect to the accounting for separately recognized servicing assets and servicing liabilities. The statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations and requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The statement also provides guidelines to classification, disclosure and subsequent measurement of servicing assets and servicing liabilities. This statement will be effective for the fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of the statement to the Company s consolidated financial statements.

Table of Contents

Form 20-F/A (Amendment No. 1)

SFAS No. 123 (revised 2004)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment , which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This statement is a revision to SFAS No. 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance. This statement will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. The Company adopted this statement on January 1, 2006 under the modified prospective method of application. Under that method, the Company will recognize compensation costs for new grants of share-based awards, awards modified after the effect date, and the remaining portion of the fair value of the unvested awards at the adoption date. The initial adoption of this statement will not have any effect on the Company s 2006 consolidated financial statements.

Research and Development

The Company has committed substantial resources to continually improve the technology of its products. The Company s internal development effort focuses primarily on improving manufacturing processes and adapting foreign technology to the Chinese market. In addition, the Company plans to continue to acquire advanced technology from Chinese research institutes, foreign engine design consulting firms and foreign diesel engine and engine parts manufacturers. As of December 31, 2005, the Company employed over 1,445 engineers, approximately 267 of whom were devoted to research and development, product enhancement and new designs. In 2003, 2004 and 2005, the Company spent approximately Rmb 94.6 million, Rmb 137.0 million and Rmb 123.8 million (US$15.3 million), respectively, on research and development. The Company believes that it has been able to control to some extent the increase of research and development expenses due to the relatively low salary levels of engineers in China.

Table of Contents

Form 20-F/A (Amendment No. 1)

PART II

ITEM 15. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable level of assurance of achieving the desired control objectives, and, in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Group Financial Controller*, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company s Chief Executive Officer and Group Financial Controller concluded that as a result of the restatement described in this Form 20-F/A and below, as of the end of the period covered by this Form 20-F/A, the Company s disclosure controls and procedures were not effective.

The Company has restated its previously issued consolidated financial statements for the year ended December 31, 2005. The restatement was the result of errors relating to the accounts of Yuchai, relating primarily to an understatement of accounts payable of approximately Rmb 167.8 million (approximately US$20.8 million) by Yuchai for the year ended December 31, 2005. The review of the accounting error pertaining to accounts payable was conducted by the Company s Audit Committee, assisted by independent counsel and independent forensic consultants. As a result of this process, the Company s management and the Audit Committee identified errors in Yuchai s adjustments of its accounts payable in its attempts to reconcile with Yuchai s then-new accounting systems. In connection with their review, the Audit Committee made the following key conclusions:

1. The adjustment of accounts payable in the amount of approximately Rmb 167.8 million was made in error but was not the result of: (a) any fraud or intentional wrongdoing on the part of any employee of the Company or Yuchai; or (b) any plan to intentionally inflate the profits. There was evidence that lower level Yuchai employees became aware that the adjustment was made in error but either did not understand the significance of the error or did not elevate their concerns to a higher level at Yuchai, where the issue could have been properly addressed. There was a similar lack of communication between employees at Yuchai and the Company regarding this adjustment. Finally, there was a failure among employees of the Company to communicate properly with respect to the filing of the Company s Form 12b-25 for the year ended December 31, 2006 on July 2, 2007. The Company and Yuchai are addressing each of the problems associated with the failures of communication regarding important accounting and other issues.

2. The Audit Committee, based on the investigation, made recommendations to the Board of Directors of the Company in order to prevent such an occurrence again. The recommendations include changes to be made to the Company s controls and procedures to improve their effectiveness, improve communication flow, clarifying the roles and responsibilities of Yuchai s finance staff, training for Yuchai finance staff, and increase resources at the Company and Yuchai.

In the previously filed Annual Report on Form 20-F for the year ended December 31, 2005, the Company had disclosed the following:

In connection with the Company s recent business expansion and diversification plan, the Company has made minority equity investments in TCL and LKN, as described elsewhere in this Annual Report.

23

Form 20-F/A (Amendment No. 1)

With respect to TCL, the Company has experienced delays in the timely collating and integration of financial information from TCL management for use by the Company in preparing its consolidated financial statements and related disclosures. This situation has primarily arisen from TCL management s lack of familiarity with US GAAP and SEC financial reporting requirements, as TCL maintains its financial statements in accordance with Singapore Financial Reporting Standards. Further, the Company did not have sufficient controls in place to detect timely all deficiencies in the US GAAP information provided by TCL in order for the Company to properly apply the equity method of accounting. The Company is pro-actively taking steps to assist TCL management to develop improved systems and procedures to enhance the quality and timeliness of the US GAAP information provided to the Company. The Company has specifically informed TCL management the importance that all significant matters must be communicated to the Company on a timely basis. The Company will continue to hold regular meetings with TCL management and review closely with the TCL management to record and disclose information received on a timely basis as appropriate. The Company will perform analytical review on the balance sheet and profit and loss statements received on a monthly basis to assess compliance with US GAAP requirements.

Internal Control over Financial Reporting

In connection with the audit of the restated 2005 consolidated financial statements, the Company s management and audit committee were informed of the following material weaknesses* in its internal control over financial reporting for the period covered by this Form 20-F/A. Based on the existence of the material weaknesses in internal control over financial reporting described below, the Company s management has concluded that as of the end of the period covered by this Form 20-F/A, the Company s internal control over financial reporting was not effective.

GRIR balance

Yuchai and the Company failed to timely identify and reconcile the original difference between the GRIR balance, which represents the amount payable for goods received but for which invoices have not been received, based on the SAP system and the GRIR balance based on manual compilation of the Goods Received Notes, which are internal documents prepared by Yuchai upon the receipt of goods for which invoices have not been received evidencing that the goods have been received in good condition and accurate quantity. In addition, management did not address the issue in a timely manner once the error became known.

Sales Discounts Calculations

Yuchai provides sales discounts to those customers who meet previously-agreed volumes and whose accounts receivable with the Company at the year-end meet certain criteria. Yuchai s management incorrectly calculated the sales discounts. The employees calculating the sales discounts did not have adequate knowledge of the sales contracts terms and the Yuchai s policy on granting sales discounts. In addition, there was a lack of detailed review of the sales discounts calculation by a person with adequate knowledge of US GAAP and a lack of supporting documents for departures from previously-agreed volumes and criteria.

Remediation Measures

To remediate the above mentioned weaknesses, the Company and Yuchai have implemented some of the recommendations of the Audit Committee, namely:

Increase resources: The Company has, since late 2007, appointed its own dedicated Chief Financial Officer, General Counsel and Group Financial Controller, each of whose sole responsibilities relate to the Company. In addition, Yuchai has effected changes in personnel in its finance department as a measure to prevent such an occurrence again; and

*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

- Clarifying roles and responsibilities and training for the members of the staff The Chairman of Yuchai has agreed to improve professional training of all its employees, provide training courses on the SAP system as well as provide clarity on the role and responsibility of each member of the staff.

The Company is in the process of implementing the other recommendations of the Audit Committee to improve the overall effectiveness of its disclosure controls and procedures.

The Company has put in place procedures to ensure that sales discounts calculations are properly computed and recorded, and Yuchai is in the process of formalizing and documenting such procedures.

The Company s management performed analysis and procedures to ensure that the consolidated financial statements included in this Form 20-F/A were prepared in accordance with generally accepted accounting principles. Accordingly, the Company s management believes that the consolidated financial statements included in this Form 20-F/A fairly present in all material respects the Company s consolidated financial position, results of operations and cash flows for the periods presented.

For future financial periods and to enhance the Company s internal control over financial reporting, management plans to review and make necessary changes to the overall design of the Company s internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting. If unremediated, these material weaknesses have the potential to result in the Company s failure to prevent or detect misstatements in its financial statements in future financial periods.

With respect to TCL, since the filing of the previously filed Annual Report on Form 20-F for the year ended December 31, 2005, as a result of the measures described above, the situation has been remedied and the Company has not experienced any significant delays in timely collating the integration of financial information from TCL management for any period since December 31, 2005.

Management s Assessment on Internal Control over Financial Reporting for 2006

While not required as of December 31, 2005, Section 404 of the Sarbanes-Oxley Act of 2002 requires the Company s management to assess the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 and to include management s report on internal control over financial reporting in the Company s annual report on Form 20-F for the fiscal year ended December 31, 2006. Although such assessment by the Company s management is continuing, the Company s management currently expects to disclose one or more material weaknesses in its internal control over financial reporting and conclude that the Company s internal control over financial reporting was not effective as of December 31, 2006. If any additional material weaknesses are identified, the Company will make public disclosure at the appropriate time and take action to remediate them as soon as practicable.

Changes in internal control over financial reporting

Except as described in this Form 20-F/A, there were no adverse changes in the Company s internal control over financial reporting that occurred during the period covered by this Form 20-F/A that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

Form 20-F/A (Amendment No. 1)

PART III

ITEM 18. FINANCIAL STATEMENTS.

Index to Financial Statements

China Yuchai International Limited

ITEM 19. EXHIBITS.

Exhibits to this Annual Report:

1.1	Memorandum of Association of China Yuchai International Limited or the Registrant (incorporated herein by reference to Amendment No. 1 to the Registration Statement on Form F-1, filed by the Registrant on December 8, 1994 (File No. 33-86162), or the Form F-1).
1.2	Bye-laws of the Registrant (incorporated herein by reference to the Form F-1).
3.1	Subscription and Shareholders Agreement of Diesel Machinery (BVI) Limited, dated November 9, 1994, among Diesel Machinery (BVI) Limited, Hong Leong Asia Ltd., or Hong Leong Asia, and China Everbright Holdings Company Limited, or China Everbright Holdings (incorporated herein by reference to Amendment no. 2 to the Registration Statement on Form F-1, filed by the Registrant on December 14, 1994 (File No. 33-86162)).
3.2	Supplemental Subscription and Shareholders Agreement, dated January 21, 2002, between China Everbright Holdings and Hong Leong Asia (incorporated herein by reference to the Annual Report on Form 20-F for fiscal year ended December 31, 2001, filed by the Registrant on June 25, 2002 (File No. 001-013522), or Form 20-F FY2001).
3.3	Second Supplemental Subscription and Shareholders Agreement, dated May 17, 2002, between China Everbright Holdings and Hong Leong Asia (incorporated herein by reference to the Form 20-F FY2001).
4.1	Contract for the Subscription of Foreign Common shares in Guangxi Yuchai Machinery Company Limited, or Yuchai, and Conversion from a Joint Stock Limited Company into a Sino-Foreign Joint Stock Limited Company, dated April 1, 1993, among Yuchai, Guangxi Yuchai Machinery Holdings Company, Hong Leong Technology Systems (BVI) Ltd., Cathay Clemente Diesel Holdings Limited, Goldman Sachs Guangxi Holdings (BVI) Ltd., Tsang & Ong Nominees (BVI) Ltd. and Youngstar Holdings Limited with amendments, dated May 27, 1994 and October 10, 1994 (incorporated herein by reference to the Form F-1).
4.2	Subscription and Transfer Agreement (with Shareholders Agreement), dated April 1993, among Cathay Clemente (Holdings) Limited, GS Capital Partners L.P., Sun Yuan Overseas Pte Ltd., HL Technology Systems Pte Ltd and Coomber Investments Limited (incorporated herein by reference to the Registration Statement on Form F-1, filed by the Registrant on November 9, 1994 (File No. 33-86162)).

26

Form 20-F/A (Amendment No. 1)

4.3	Amended and Restated Shareholders Agreement, dated as of November 9, 1994 among The Cathay Investment Fund, Limited, GS Capital Partners L.P., HL Technology Systems Pte Ltd, Hong Leong Asia Ltd., Coomber Investments Limited, China Everbright Holdings Company Limited, Diesel Machinery (BVI) Limited, owners of shares formerly held by Sun Yuan Overseas (BVI) Ltd. and the Registrant (incorporated herein by reference to the Form F-1).
4.4	Form of Amended and Restated Registration Right Agreement, dated as of November 9, 1994, among The Cathay Investment Fund, Limited, GS Capital Partners L.P., HL Technology Systems Pte Ltd, Coomber Investments Limited, owners of shares formerly held by Sun Yuan Overseas (BVI) Ltd. and the Registrant (incorporated herein by reference to Amendment No. 3 to the Registration Statement on Form F-1, filed by the Registrant on December 15, 1994 (File No. 33-86162)).
4.5	Form of Subscription Agreement between the Registrant and its wholly-owned subsidiaries named therein and Yuchai (incorporated herein by reference to Amendment No. 2 to the Registration Statement on Form F-1, filed by the Registrant on December 14, 1994 (File no. 33-86162)).
4.6	Form of Term Loan Agreement between the Registrant and Yuchai (incorporated herein by reference to Amendment No. 2 to the Registration Statement on Form F-1, filed by the Registrant on December 14, 1994 (File No. 33-86162)).
4.7	Share Purchase and Subscription Agreement, dated as of November 9, 1994, between (i) the Registrant, (ii) China Everbright Holdings Company Limited and (iii) Coomber Investments Limited (incorporated herein by reference to the Form F-1).
4.8	Investment and Shareholders Agreement between CACG Limited IV and Guangxi Yuchai Machinery Company Limited, dated July 14, 1994 with a First Amendment dated September 5, 1994 (incorporated herein by reference to the Form F-1).
4.9	Employment Agreement, dated September 5, 2003, between Yuchai and Wang Jianming (incorporated herein by reference to the Annual Report on Form 20-F for fiscal year ended December 31