

CHINA YUCHAI INTERNATIONAL LTD
Form 20-F
July 17, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

OR

..

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

Commission file number 1-13522

China Yuchai International Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable
(Translation of Registrant's Name Into English)

Bermuda
(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)

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

As of December 31, 2006, 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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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Certain Definitions and Supplemental Information

All references to China, PRC and the State in this Annual Report are references to the People's Republic of China. Unless otherwise specified, all references in this Annual Report to US dollars, dollars, US\$ or \$ are to United States dollars; all references to Renminbi or Rmb are to Renminbi, the legal tender currency of China; all references to S\$ are to Singapore dollars, the legal tender of Singapore. Unless otherwise specified, translation of amounts for the convenience of the reader has been made in this Annual Report (i) from Renminbi to US dollars at the rate of Rmb 6.8591 = US\$1.00, the rate quoted by the People's Bank of China, or PBOC, on June 30, 2008 and (ii) from Singapore dollar to US dollars at the rate of S\$1.3608 = US\$1.00, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2008. No representation is made that the Renminbi amounts or Singapore dollar amounts could have been, or could be, converted into US dollars at rates specified herein or any other rate.

Our consolidated financial statements are reported in Renminbi and prepared in conformity with accounting principles generally accepted in the United States of America, or US GAAP. Totals presented in this Annual Report may not correctly total due to rounding of numbers. References to a particular fiscal year are to the period ended December 31 of such year.

As used in this Annual Report, unless the context otherwise requires, the terms the Company, CYI, we, us, our and our company refer to Yuchai International Limited and its subsidiaries. All references herein to Yuchai are to Guangxi Yuchai Machinery Company Limited and its subsidiaries and, prior to its incorporation in July 1992, to the machinery business of its predecessor, Guangxi Yulin Diesel Engine Factory, or Yulin Diesel, which was founded in 1951 and became a state-owned enterprise in 1959. In the restructuring of Yulin Diesel in July 1992, its other businesses were transferred to Guangxi Yuchai Machinery Holdings Company, also sometimes referred to as Guangxi Yuchai Machinery Group Company Limited, or the State Holding Company, which became a shareholder of Yuchai. All references to HLGE are to HL Global Enterprises Limited (formerly known as HLG Enterprise Limited); and all references to the HLGE group are to HLGE and its subsidiaries. All references to TCL are to Thakral Corporation Ltd; and all references to the TCL group are to TCL and its subsidiaries. This Annual Report includes certain 2007 data regarding the Company that is derived from unaudited estimated information.

As of December 31, 2006, 37,267,673 shares of our common stock, par value US\$0.10 per share, or Common Stock, and one special share, par value US\$0.10, of our Common Stock were issued and outstanding. The weighted average shares of common stock outstanding during the year was 37,267,673. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 37,267,673 for 2006. As of May 30, 2008, 37,267,673 shares of our Common Stock and one special share, par value US\$0.10, of our Common Stock were issued and outstanding.

Cautionary Statements with Respect to Forward-Looking Statements

We wish to caution readers that the forward-looking statements contained in this Annual Report, which include all statements which, at the time made, address future results of operations, are based upon our interpretation of factors affecting our business and operations. We believe that the following important factors, among others, in some cases have affected, and in the future could affect, our actual consolidated results and could cause our actual consolidated results for 2007 and beyond to differ materially from those described in any forward-looking statements made by us or on our behalf:

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

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

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

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

our dependence on the Dongfeng Automobile Company and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Automobile Company;

our ability to successfully manufacture and sell our 4108, 4110, 4110Q, 4110ZQ, 4112, 4F, 4G, 6105, 6108, 6112, 6L/6M (formerly referred to as 6113) heavy-duty diesel engines and any new products;

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

the effects of inflation on our financial condition and results of operations, including the effects on Yuchai's costs of raw materials and parts and labor costs;

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

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

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

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

the effects of competition in the consumer electronics market and the demand for the TCL group's consumer electronics products;

the effects of adverse economic conditions in consumer spending patterns and its impact on the demand for the TCL group's consumer electronics;

the ability of TCL to obtain shareholder approval for, and successfully implement, its announced strategy of repositioning its principal business from consumer electronics distribution to real estate and related infrastructure investment in the pan-Asian region;

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

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

the impact of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics that may affect travel patterns and reduce the number of travelers and tourists to the HLGE group's hospitality operations. Our actual results, performance, or achievement may differ from those expressed in, or implied by, the forward-looking statements contained in this Annual Report. Accordingly, we can give no assurances that any of the events anticipated by these forward-looking statements will transpire or occur or, if any of the foregoing factors or other risks and uncertainties described elsewhere in this Annual Report were to occur, what impact they will have on these forward-looking statements, including our results of operations or financial condition. In view of these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements contained in this Annual Report to reflect the occurrence of events after the date of this Annual Report.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not Applicable.

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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 our audited consolidated financial statements and the notes thereto included in this Annual Report. Our consolidated financial statements are prepared in conformity with US GAAP.

On May 30, 2008, the Company filed an amendment to its annual report on Form 20-F for the year ended December 31, 2005 containing the restated financial statements as of and for the year ended December 31, 2005 to reflect certain adjustments to correct accounting errors mainly at Yuchai for such period.

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

Following an announcement in February 2005 by the Board of Directors of the Company of its approval of the implementation of our business expansion and diversification plan, we have looked for new business opportunities to seek to reduce our financial dependence on Yuchai. As of December 31, 2006, we had a 36.6% interest in the outstanding ordinary shares of TCL and a 45.4% interest in the outstanding ordinary shares of HLGE. As of June 30, 2008, we had a 34.4% interest in the outstanding ordinary shares of TCL (as a result of issuance of additional ordinary shares by TCL pursuant to the exercise of options and convertible securities) and a 45.4% interest in the outstanding ordinary shares of HLGE. For further information on the Company's investments in TCL and HLGE, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

The selected consolidated balance sheet data as of December 31, 2005 and 2006 and the selected consolidated statement of operations data and selected consolidated statement of cash flows data set forth below for the years ended December 31, 2004, 2005 and 2006 are derived from our audited consolidated financial statements included in this Annual Report. Our selected consolidated balance sheet data set forth below as of December 31, 2002, 2003 and 2004 and selected consolidated statement of operations data and selected consolidated statement of cash flows data for the years ended December 31, 2002 and 2003 are derived from our audited consolidated financial statements not included in this Annual Report.

	Year Ended December 31,					
	2002 Rmb	2003 Rmb	2004 Rmb	2005 Rmb	2006 Rmb	2006 US\$(¹)
(in thousands, except earnings per share)						
Consolidated Statement of Operations Data:						
Revenues, net	3,513,047	4,569,950	5,582,095	5,816,740	6,920,528	1,008,956
Gross profit	1,141,967	1,377,156	1,575,209	1,143,383	1,272,121	185,465
Research and development costs	(75,532)	(94,594)	(136,960)	(123,793)	(167,653)	(24,442)
Provision for uncollectible loans						
to a related party				(202,950)		
Operating income	640,307	721,411	779,929	26,020	304,479	44,391
Other income/(expense), net	10,287	(881)	5,682	25,449	38,856	5,665
Equity in losses of affiliates				(6,032)	(22,449)	(3,273)
Earnings / (loss) before income taxes and minority interests	625,450	696,906	753,854	(25,090)	203,395	29,654
Income taxes	(83,242)	(112,924)	(105,165)	(10,148)	(30,466)	(4,442)
Income / (loss) before minority interests	542,208	583,982	648,689	(35,238)	172,929	25,212
Minority interests in (income) losses of consolidated subsidiaries	(129,775)	(145,800)	(157,292)	2,947	(61,645)	(8,987)
Net income / (loss)	412,433	438,182	491,397	(32,291)	111,284	16,225
Basic and diluted earnings / (loss) per common share	11.67	12.40	13.90	(0.89)	2.99	0.44
Weighted average number of						
shares	35,340	35,340	35,340	36,460	37,268	37,268

Consolidated Balance Sheet Data:

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Working capital ⁽²⁾	1,340,832	1,031,830	1,402,226	823,324	457,449	66,693
Property, plant and equipment, net	772,968	735,641	1,158,931	1,440,712	1,795,405	261,755

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	Year Ended December 31,					
	2002 Rmb	2003 Rmb	2004 Rmb	2005 Rmb	2006 Rmb	2006 US\$(¹)
	(in thousands, except earnings per share)					
Total assets	3,985,459	4,033,632	5,384,248	6,679,630	7,961,357	1,160,700
Long-term bank loans, excluding current installments	50,000		100,000	50,000	675,454	98,476
Minority interests	487,491	544,526	724,311	654,687	693,296	101,077
Total stockholders' equity	2,161,903	1,991,687	2,483,084	2,566,263	2,728,399	397,778
Consolidated Statement of Cash Flows Data:						
Net cash provided by operating activities	659,500	1,075,274	589,608	234,770	634,146	92,452
Capital expenditures ⁽³⁾	174,850	372,775	552,902	515,359	323,781	47,205

- (1) The Company's functional currency is the U.S. dollar and its reporting currency is Renminbi. The functional currency of Yuchai is Renminbi. Translation of amounts from Renminbi to US dollars is solely for the convenience of the reader. Translation of amounts from Renminbi to U.S. dollars has been made at the rate of Rmb 6.8591 = US\$1.00, the rate quoted by the People's Bank of China at the close of business on June 30, 2008. 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 June 30, 2008 or any other date. The rate quoted by the People's Bank of China at the close of business on December 29, 2006 was Rmb 7.8087 = US\$1.00. The Renminbi has appreciated against the U.S. dollar since December 29, 2006.
- (2) Current assets less current liabilities.
- (3) Purchase of property, plant and equipment, lease prepayments and payment for construction in progress.

Dividends

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

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

Chinese laws and regulations applicable to a Sino-foreign joint stock company require that before Yuchai distributes profits, it must (i) recover losses in previous years; (ii) satisfy all tax liabilities; and (iii) make contributions to the statutory reserve fund in an amount equal to 10% of net income for the year determined in accordance with generally accepted accounting principles in the PRC, or PRC GAAP. However, the allocation of statutory reserve fund will not be further required once the accumulated amount of such fund reaches 50.0% of the registered capital of Yuchai.

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

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

Period	Dividend paid by the Company	Dividend paid by Yuchai
	to its shareholders	to the Company ⁽¹⁾
	(per share)	(in thousands)
2002	US\$0.19	Rmb 245,766 (US\$29,694) ⁽²⁾
2003	US\$2.08	Rmb 61,433 (US\$7,422)
2004	Nil	Rmb 231,309 (US\$27,906) ⁽³⁾
2005	US\$0.39	Rmb 72,282 (US\$9,039) ⁽⁴⁾
2006	US\$0.02 ⁽⁵⁾	Rmb 72,284 (US\$9,598) ⁽⁶⁾
2007	US\$0.10 ⁽⁷⁾	Not yet declared

- (1) Dividends paid by Yuchai to us, as well as to other shareholders of Yuchai, were declared in Renminbi and paid in US dollars (as shown in parentheses) based on the exchange rates at local designated foreign exchange banks on the respective payment dates. For dividends paid for 2002, 2003, 2004, 2005 and 2006, the exchange rate used was Rmb 8.2767 = US\$1.00, Rmb 8.2767 = US\$1.00, Rmb 8.2765 = US\$1.00, Rmb 7.9967 = US\$1.00 and Rmb 7.5310 = US\$1.00, respectively.
- (2) The dividend declared for 2002 by Yuchai was paid to us in 2003 following the execution of the July 2003 Agreement (as defined in Item 4. Information on the Company History and Development Reorganization Agreement).
- (3) The dividend declared for 2004 by Yuchai was paid to us in 2005 following the execution of the Reorganization Agreement.
- (4) On June 26, 2006, Yuchai declared a dividend to all shareholders in respect of the fiscal year ended December 31, 2005 and the amount attributable to the Company was Rmb 72.3 million (US\$9.0 million). We received this dividend on July 28, 2006.
- (5) On December 4, 2006, we declared an interim dividend to all shareholders in respect of the fiscal year ended December 31, 2006. This dividend was paid to the shareholders on December 28, 2006.
- (6) The dividend declared for 2006 by Yuchai was paid to us on September 17, 2007.
- (7) On September 28, 2007, we declared a second interim dividend of US\$0.10 per ordinary share amounting to US\$3.7 million to all shareholders in respect of the fiscal year ended December 31, 2006. This dividend was paid to the shareholders on October 24, 2007.

Historical Exchange Rate Information

On December 29, 2006, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York was Rmb 7.8041 = US\$1.00. On December 31, 2007, the noon buying rate was Rmb 7.2946 = US\$1.00. On June 30, 2008, the noon buying rate was Rmb 6.8591 = US\$1.00.

The following tables set forth certain information concerning exchange rates between Renminbi and US dollars for the periods indicated:

Period	Noon Buying Rate ⁽¹⁾ (Rmb per US\$1.00)	
	High	Low
November 2007	7.4582	7.3800
December 2007	7.4120	7.2946
January 2008	7.2946	7.1818
February 2008	7.1973	7.1100
March 2008	7.1075	7.0105
April 2008	7.0185	6.9840
May 2008	7.0000	6.9377
June 2008	6.9633	6.8591

Noon Buying Rate⁽¹⁾
(Rmb per US\$1.00)

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Period	Period End	Average⁽²⁾	High	Low
2002	8.2800	8.2772	8.2800	8.2765
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1734	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	