

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CYD - Q4 2013 China Yuchai International Limited Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 26, 2014 / 1:00PM GMT



CORPORATE PARTICIPANTS

Kevin Theiss *Grayling - IR*

Weng Ming Hoh *China Yuchai International Limited - President*

Kok Ho Leong *China Yuchai International Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Alex Potter *Piper Jaffray - Analyst*

Mohit Khanna *Value Investment Principals - Analyst*

Paul Gong

Kelvin Lai

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the China Yuchai International Limited fourth quarter and full-year 2013 earnings call. I would like now to turn the conference over to Kevin Theiss. Thank you. Please go ahead, sir.

Kevin Theiss - *Grayling - IR*

Thank you for joining us today and welcome to China Yuchai International Limited's fourth quarter and year ended December 31, 2013 conference call and webcast.

My name is Kevin Theiss and I am with Grayling, China Yuchai's US investor relations advisor. Joining us today are Mr. Weng Ming Hoh and Mr. Kok Ho Leong, President and Chief Financial Officer of CYI, respectively. In addition, Mr. Kelvin Lai, VP of Operations of CYI, is joining us today.

Before we begin, I will remind all listeners that throughout this call we may make statements that may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate," "project," "targets," "optimistic," "intend," "aim," "will," or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that may be deemed forward-looking statements. These forward-looking statements are based on current expectations or beliefs, including, but not limited to, statements concerning the Company's operations, financial performance and condition. The Company cautions that these statements, by their nature, involve risks and uncertainties, and actual results may differ materially depending on a variety of important factors, including those discussed in the Company's reports filed with the Securities and Exchange Commission from time to time. The Company specifically disclaims any obligation to maintain or update the forward-looking information, whether of the nature contained in this release or otherwise, in the future.

Mr. Hoh will provide a brief overview and summary. Then Mr. Leong will review the financial results for the fourth quarter and full year ended December 31, 2013. Thereafter, we will conduct a question and answer session.

For the purposes of today's call, the financial results are unaudited and they will be presented in RMB and US dollars. All the financial information presented is reported using International Financial Reporting Standards as issued by the International Accounting Standards Board.

Mr. Hoh, please start your presentation.



Weng Ming Hoh - *China Yuchai International Limited - President*

Thank you, Kevin.

We are pleased to report the highest revenue in any fourth quarter in the Company's history. Net revenue increased 24.5% to a fourth quarter record high of RMB4.1b or US\$666.6m, compared with RMB3.3b in the fourth quarter of 2012. The record revenue achieved in the fourth quarter of 2013 follows the highest revenue achieved by the Company in any third quarter.

In the fourth quarter of 2013, according to data from the China Association of Automobile Manufacturers, CAAM, industry sales of diesel-powered commercial vehicles grew 10.8% year-over-year led by a 48.2% growth in heavy-duty diesel trucks. Solid growth in truck sales was primarily attributable to the pre-buying of heavy-duty trucks as a result of the implementation of National IV emission standards nationwide in China in mid-2013 and inventory re-stocking to meet future demand.

We continued to increase our leading market position as our diesel engine unit sales grew 18.9% year-over-year to 110,583 units, exceeding the industry growth rate of diesel-powered commercial vehicles. Our robust sales of diesel engines to the heavy-duty truck segment also surpassed the sales growth of heavy-duty diesel trucks in the fourth quarter of 2013.

Looking at the full year 2013, our net revenue increased by RMB2.5b, or 18.2%, to RMB15.9b or US\$2.6b, from RMB13.4b in 2012. Revenue growth was led by stronger unit sales of higher-priced, heavy-duty truck engines and natural gas engines. The total number of engines sold during 2013 was 500,756 units compared with 431,350 units in 2012. Our total engine sales volume growth of 16.1% in 2013, which included engines for both on-road and off-road applications, surpassed the 5.6% growth rate for diesel-powered commercial vehicles as reported by CAAM.

Our increase in unit sales was mainly attributable to higher diesel engine sales in the truck market as a result of pre-buying due to the implementation of a stricter National IV emission standard in mid-2013. We captured market share in the heavy-duty truck market as our diesel engine unit growth rate exceeded the 20.8% increase in heavy-duty diesel trucks sold in 2013 as reported by CAAM.

As an advocate of clean energy transportation in China, we posted robust growth in the sales of natural gas engines. In 2013, we sold approximately 32,400 units of natural gas engines, an increase of 62% compared with approximate sales of 19,900 units in 2012. Our long history of producing natural gas engines has contributed to our domination of the Chinese bus engine market where the less expensive natural gas fuel and cleaner running engines make them the preferred engines for use in the urban centers.

The sales increase in the heavy-duty diesel truck market during 2013 justified our strategic investments to capture market share in this important segment. Over the past few years, production capacities of our heavy-duty 6L and 6M engines have been expanded. The model 6M engine was upgraded to a YC6MK 6-cylinder engine using newly developed 6K technology to increase its performance and expand its range of applications. A gas version of the YC6MK engine was also made available. Our YC6K model is the next-generation 6-cylinder diesel engine compliant with both National IV and V emission standards with a capacity of between 10 liters and to 13 liters. We expanded the YC6K engine series and launched a natural gas engine version of this engine in 2013. We remain enthusiastic about the long-term outlook for heavy-duty engines in China.

In addition to targeting higher market share in the truck market and maintaining our dominant position in the bus market, our research and development efforts have resulted in the development of new high horsepower engines to address the marine, mining, construction equipment, and power generation markets. New and upgraded engine models include the YC6CL, YC6MJ and YC4S, and the YC12VT model is expected to be launched in 2014. In 2013, unit sales in the off-road market grew by 20.3%.

During 2013, we launched a total of 12 new engines; 7 National V-compliant natural gas engines and 5 National IV-compliant diesel engines. We recently announced another 8 new engine block models to be launched in 2014 for the marine, power generation, construction equipment, light-duty vehicles, heavy-duty truck markets and a second-generation hybrid engine. According to CAAM, the light-duty commercial vehicle market is the largest market by units in China and we are adding more capability with newer models in our light-duty portfolio to expand our sales.

These 20 new engines introduced in 2013 and 2014 raise the bar in performance, emission standards and quality as we become a more powerful competitor to capture market share in China.

To enhance our technological leadership, our new Research and Development Institute located in the city of Nanning, capital of Guangxi Province, commenced operations in October 2013. This new institute is the leading engine research organization in China and its aim is to become a leader in engine technology.

We also utilized joint ventures to share in investments in creating new engine technologies with companies such as CIMC-Chery Auto, and Baotou BeiBen Heavy Duty Truck. Our partners are also the primary customers for the respective new engines to be manufactured under the joint ventures. In 2013, research and development investment increased by 25.4% for the development of new engines and products, upgrades and quality improvements.

We achieved solid growth in revenue and profit in 2013 even as we completed a suite of natural gas engines to complement our leading diesel engine line. Additionally, new high horsepower diesel and natural gas engines are increasing our penetration into the off-road markets as well. New dedicated production for these products will accommodate these growth initiatives. Our strategy of developing the broadest line of high-quality engines presents our customers with the option of diesel or natural gas to fuel light, medium and heavy-duty engines for their vehicles. With the widest portfolio of engines combined with our extensive service capabilities, we are in a strong position to increase market share in the diverse domestic commercial vehicle markets thereby enhancing our industry leadership.

Consistent with our strategy of growing our market share, our annual engine production capacity has increased to approximately 600,000 units. A new dedicated production capacity for our growing line of off-road, high horsepower engines at our main plant in the city of Yulin, will better support our growing future sales in these markets. Also, a dedicated production facility is meeting the increasing demand for our portfolio of natural gas engines. During 2013, we also completed phase 2 of our new foundry and we now have the capacity to produce 1m engine blocks and heads. We have reaped cost benefits as well as improved efficiency with a reduction in the rejection rate from our new foundry.

In 2013, we rewarded our shareholders by paying out total cash dividends of US\$0.90 per ordinary share. We are in strong financial condition generating positive cash flow and we intend to continue to invest in the business to rollout more advanced engine models for future growth thereby creating more value for our shareholders.

With that, let me turn the call over to Kok Ho Leong, our CFO, to provide more details on the financial results.

Kok Ho Leong - China Yuchai International Limited - CFO

Thank you Weng Ming. Net revenue for the fourth quarter of 2013 increased 24.5% to a fourth quarter record high of RMB4.1b, US\$666.6m, compared with RMB3.3b in the fourth quarter of 2012. The total number of diesel engines sold by GYMCL during the fourth quarter of 2013 was 110,583 units compared with 92,996 units in the same quarter of 2012, representing an increase of 17,587 units, or 18.9%. This growth was mainly attributable to an increase in the sales of engines to truck and bus markets.

Gross profit increased 5.8% to RMB851.4m, US\$139.6m, compared with RMB804.9m in the same quarter of 2012. Gross margin was 20.9% in the fourth quarter of 2013 compared with 24.7% in the same quarter in 2012. The lower gross margin compared to the fourth quarter of 2012 was attributable to higher sales discounts in the fourth quarter of 2013.

Other operating income was RMB61.6m, US\$10.1m, an increase of RMB7.6m from RMB54.0m in the fourth quarter of 2012.

Research and development, "R&D" expenses, were RMB146.3m, US\$24m, compared with RMB102.7m in the same quarter of 2012, an increase of 42.4%. As a percentage of net revenue, R&D spending was 3.6% compared with 3.1% in the same quarter of 2012. The increase in R&D expenses was mainly due to higher investments for the development of new engine products as well as continued emphasis on quality improvements.

Selling, general & administrative, "SG&A", expenses were RMB297.6m, US\$48.8m, down from RMB365.2m in the fourth quarter of 2012, a decrease of RMB67.6m, or 18.5%. SG&A expenses represented 7.3% of the net revenue compared with 11.2% in the fourth quarter of 2012. The decrease in SG&A percentage was mainly due to the increase in the unit sales and revenue as well as lower sales incentive.



Operating profit increased by 20.0% to RMB469.2m, US\$76.9m from RMB391.0m in the fourth quarter of 2012, mainly due to higher gross profit and lower SG&A expenses partially offset by higher R&D expenses. The operating margin was 11.5% in the fourth quarter of 2013 compared with 12.0% in the fourth quarter of 2012.

Finance costs decreased to RMB25.9m, US\$4.2m, from RMB46.9m in the same quarter in 2012, a decline of RMB21.0m. Lower interest costs mainly resulted from lower expenses from bills discounting and lower interest costs from the outstanding medium-term notes.

The share of joint ventures was a loss of RMB46.3m, US\$7.6m, compared with the loss of RMB8.1m in the same quarter in 2012. The increase in loss of RMB38.2m was due to impairment of joint ventures.

In the fourth quarter 2013, total net profit attributable to China Yuchai's shareholders increased 11.3% to RMB246.3m, US\$40.4m, or, earnings per share of RMB6.61, US\$1.08, compared with RMB221.2m, or earnings per share of RMB5.94 in the same quarter of 2012.

Let me now review the financial numbers for the full year of 2013.

Net revenue for 2013 increased 18.2% to RMB15.9b, US\$2.6b, compared with RMB13.4b in 2012.

The total number of diesel engines sold by GYMCL during 2013 was 500,756 units compared with 431,350 units in 2012, representing an increase of 69,406 units, or 16.1%. This increase was mainly attributable to an increase in the sales of engines to the truck and bus market as well as for agriculture applications. In 2013, approximately 32,400 natural gas engines were sold compared with 19,900 in 2012.

Gross profit was RMB3.3b, US\$535.6m, compared with RMB2.9b in 2012, reflecting a 13.4% increase. Gross profit margin was 20.5% compared with 21.4% in 2012. The lower gross margin was attributable to higher sales discounts in 2013.

Other operating income was RMB148.1m, US\$24.3m, compared with RMB132.4m in 2012.

Research and development, R&D, expenses were RMB468.6m, US\$76.9m, compared with RMB373.7m in 2012, an increase of 25.4%. As a percentage of net revenue, R&D spending was 2.9% as compared with 2.8% in 2012. R&D expenses were mainly related to ongoing research and development of new and existing engine products as well as continued initiatives to improve engine quality.

Selling, general & administrative, SG&A, expenses were RMB1.6b, US\$254.3m, up from RMB1.5b in 2012, an increase of RMB0.1b or 5.1%. SG&A expenses represented 9.7% of net revenue in 2013 as compared with 11.0% in 2012. The decrease in SG&A percentage was mainly due to higher sales and better cost management.

Operating profit increased 19.9% to RMB1.4b, US\$228.7m, from RMB1.2b in 2012, mainly due to an increase in gross profit partially offset by higher R&D and SG&A expenses. The operating margin was 8.8% in 2013 and 8.7% in 2012.

Finance costs declined to RMB161.2m, US\$26.4m, from RMB213.0m in the same period of 2012, a decrease of RMB51.8m, or 24.3%. The decline in finance costs was mainly due to lower interest costs from the outstanding medium-term notes and less bills discounting in 2013.

The share of joint ventures was a loss of RMB79.2m, US\$13.0m, as compared with a loss of RMB39.2m in 2012. The increase in loss of RMB40.0m was mainly due to impairment of joint ventures.

For fiscal year ended December 31, 2013, total net profit attributable to China Yuchai's shareholder increased 22.1% to RMB692.6m, US\$113.6m, or earnings per shares of RMB18.58, US\$3.05, compared with RMB567.3m, or earnings per share of RMB15.22 in 2012.

Let me now go through the balance sheet highlights as at December 31, 2013.

Cash and bank balances were RMB3.4b, US\$557.1m, compared with RMB3.2b at December 31, 2012.



Trade and bill receivables were RMB7.4b, US\$1.2b, compared with RMB6.6b at the end of 2012.

Short- and long-term borrowings were RMB2.3b, US\$370.6m, compared with RMB2.5b at the end of 2012.

Net inventory was RMB2.3b, US\$382.8m, compared with RMB2.0b at the end of 2012.

With that, operator, we are ready to begin the Q & A session.

QUESTIONS AND ANSWERS

Operator

Alex Potter, Piper Jaffray.

Alex Potter - *Piper Jaffray - Analyst*

Hi, guys. How are you?

Weng Ming Hoh - *China Yuchai International Limited - President*

Hi, good. Alex, good to hear from you again.

Alex Potter - *Piper Jaffray - Analyst*

Was wondering if first, we can just focus on the market for truck volume and your expectations in 2014 first. You mentioned the pre-buy impact in 2013. There is a fairly wide range of opinions on truck volume in 2014. Some people think that we're going to continue seeing growth in 2014 like we have been. Some people think that because of the pre-buy, we're going to see a contraction in 2014 in truck volume. What's your opinion on the matter?

Weng Ming Hoh - *China Yuchai International Limited - President*

Right, obviously as you know, we do not give any guidance. But from the way we look at it Alex, yes, quite frankly, there has been a fair pre-buying in 2013, and as a result, I think you should see the market grows there.

So, we expect 2014, the pre-buy to have an effect on 2014 outlook. How bad or how good it is, sorry, it's hard to guess right now. But I believe there will be some, particularly in the commercial vehicle markets.

Alex Potter - *Piper Jaffray - Analyst*

Okay. Yes. Was there any -- on a related question there, what percentage of your volume right now of your engine volume for -- on-highway applications, do you estimate is compliant with NS IV? And obviously, I know all the natural gas engines that you are making are NS IV-compliant, but, of the diesel engines, how many of those in percentage terms would you say are NS IV compliant?

Weng Ming Hoh - *China Yuchai International Limited - President*

For the year 2013?

Alex Potter - *Piper Jaffray - Analyst*

If you could give the latest figures, that would be great. So, maybe in the quarter or even so far this year.

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay. Well, I'll give you some color on this 2013 National IV, NS IV engine sales. Now, as you know, National IV engine standards were fully implemented in July 2013, so there is hardly any before that.

The third quarter of 2013, the number of National IV engines sold was not much, but it picked up in the third quarter, sorry, in the fourth quarter.

Now, because of the short period of time, the overall number, percentage of National IV engines as a percentage of the total engine sales, is actually quite low.

Alex Potter - *Piper Jaffray - Analyst*

Okay. And how about so far this year, have you seen that percentage continually increase?

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay. There is some. The reason is this. I think particularly in the bus market, we're seeing a lot more National IV engines sold there compared to the truck markets. Now simply because in China, the big cities, Tier 1 cities, obviously have implemented and enforced the National IV standard.

Now, the second Tier cities are starting to do that as well. So, from our last count we think there are over 20 cities that have already enforced the National IV standards. Now, these are cities in Tier 1 and Tier 2. It's mainly the big cities and the provisional capitals. So, we will expect that to continue into 2014. So, hence yes, we do expect the National IV engine sales to improve, increase rather.

Alex Potter - *Piper Jaffray - Analyst*

Okay. Okay. Very good. Was wondering if you could comment a little bit on the sales discounts that you mentioned in Q4 driving lower gross margin. What were some of the reasoning behind that? Is there competitive pressure in the market that's materializing? Is that something that you expect to continue, or was it just a one-time issue at the end of the year? Kok Ho Leong^ Okay, in Q4 we did have this effect. This is largely due to the interaction with all the OEMs because we've got them on the annual basis. We look at if they are constrained and look at the volume that they have. In this year, we have given slightly more than the previous year's quarter and it does impact our profit a little. That has already occurred.

As to what is the future, we are not able to comment at the moment. But, generally, it is an ongoing negotiation.

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay. May I add to that Alex? If you look at our sales number, actually it's gone up by 16%. So, I think with an increase in volume, obviously our customer would pay a little bit of our incentive back as well.

Alex Potter - Piper Jaffray - Analyst

Okay. All right. And then was wondering if you could comment also on inventory of new trucks at the dealer level; whether it's NS III or NS IV trucks. You've mentioned that there was a pre-buy impact that helped volume in 2013. But there was also inventory restocking that took place at the dealer level. Can you comment on whether you think inventory is at an appropriate level, whether it's getting too high at the dealer level? Any color you have there would be helpful. Thanks.

Weng Ming Hoh - China Yuchai International Limited - President

Okay. I think, this is quite difficult and right now, Alex, I think I am sure you understand, because of the National IV standards has been implemented, but not strictly enforced around the country. , It's affecting the buying decision, or rather the stocking decision of some of the dealers. So, it depends on how the dealer is viewing the enforcement going forward. But from our understanding of the market, we're seeing that the inventory levels actually are quite appropriate, quite comfortable. It's not too high right now.

Alex Potter - Piper Jaffray - Analyst

Okay. Very good. Thank you very much guys.

Weng Ming Hoh - China Yuchai International Limited - President

Okay.

Operator

Paul Gong, Citigroup.

Paul Gong

Hi, Weng Ming. Hi Kok Ho.

Weng Ming Hoh - China Yuchai International Limited - President

Hey. Hi, Paul.

Paul Gong

Thanks for taking my question.

The first question, actually, I wanted to follow-up a little bit with Alex's question about the 2014 outlook. You mentioned that you are pretty confident to gain market share in 2014 with your products and with your technology advantage versus your peers. But you also mentioned that there would be some pre-buy effect in late 2013 that may have some negative impact on the 2014 outlook. So, may I assume that for the whole market you are kind of expecting year-over-year decline as well? For yourself, perhaps you are expecting some like a flattish 2014 or slight growth. Is this a fair assumption?

Weng Ming Hoh - *China Yuchai International Limited - President*

Now, I think just on pre-buy in 2013, obviously, the commercial vehicle market, particularly the truck market, and maybe even the bus market, is going to have some impact. Now, the commercial vehicle market is still a big segment of our business. So we will expect to see some impact as well, but we hope to overcome by other segments.

Paul Gong

So, if 2014 you are shift overall flattish year-over-year, that would be a triumph. Is that your expectations?

Weng Ming Hoh - *China Yuchai International Limited - President*

Yes. It will be great.

Paul Gong

Okay. Now the second question is also regarding the pricing. I read from the Q4's quarter, you have actually decreased the incentives, but also offered more discount. So, net-net it's pretty difficult for me to really say how that pricing has been changed. Of course, the blended ASP has kind of like a 6% up in the first quarter. But I believe this is pretty much driven by the product mix change. So, if we compare the apple-to-apple, what is like the absolute pricing change and how is your own cost structure have been changed for each same engine you produce?

Weng Ming Hoh - *China Yuchai International Limited - President*

This is going to be difficult. Just the thing is that I think it's difficult to do it on a product by product basis. Now, all I will suggest is overall, I'll just comment on the overall.

Overall, if you look at it, we have, if you take this revenue and divide it by the number of units; it's gone up a little bit. Now, it's probably also due to our components. But now with the implementation on National IV engines, obviously National IV engines come on a higher price than National III. Okay, so that would drive up the prices and have the quantitative effect on the average selling price. But, coupled with that, the cost of producing National IV engines will be higher as well. And that in a way negates the gain of on the average selling price.

Paul Gong

And based on current pricing, like you can probably make a slightly higher margin on the National standard IV engine than national standard III is right?

Weng Ming Hoh - *China Yuchai International Limited - President*

Yes, yes. The price is definitely is higher. Yes.

Paul Gong

Yes. Okay. Thank you very much.

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay.

Operator

Mohit Khanna, Value Investment Principals.

Mohit Khanna - *Value Investment Principals - Analyst*

Good morning, guys.

Weng Ming Hoh - *China Yuchai International Limited - President*

Good morning.

Mohit Khanna - *Value Investment Principals - Analyst*

I just wanted to catch up on the revenue breakdown from different industries where you are selling your diesel engines and natural gas engines. And also, there has been a mounted concern over air quality in Beijing and surrounding areas. So, are you guys seeing some kind of traction in natural bus market, natural gas bus market engines in other cities as well?

Weng Ming Hoh - *China Yuchai International Limited - President*

Well, we are selling -- our gas -- natural gas engine is selling very well. In fact, we had a very significant massive growth effect. If you look at it, we sold 32,000 units in 2013 compared to 19,900 units last year. So, it's about 60% over growth rate.

Now, part of the reason obviously is the environmental issue. The big cities especially in Beijing, as you rightly pointed out, there they are trying to clean out the environment. So, for the buses, following that you have to use a much higher emission standard before they will grant the license. This is slowly in fact, this is also trickling to other big tier cities as well.

Mohit Khanna - *Value Investment Principals - Analyst*

Great. Could you just breakdown there on the dollar terms how much revenue comes from natural bus business -- natural gas engines in the fourth quarter?

Weng Ming Hoh - *China Yuchai International Limited - President*

Sorry, I think we are not prepared to do that. But if you look at it, in terms of sales, unit sales, yes, it's gone up by over 60% over the previous year.

Mohit Khanna - *Value Investment Principals - Analyst*

Yes, that's very encouraging.



Weng Ming Hoh - *China Yuchai International Limited - President*

Yes, and that is continuous growth. Despite the national gas engine market will continue to grow significantly.

Mohit Khanna - *Value Investment Principals - Analyst*

Right, right, and could you just comment on the upcoming dividend probably in the month of May, I guess, you guys declared that?

Weng Ming Hoh - *China Yuchai International Limited - President*

I would like to, but I've been told not to. We can't comment just at this point in time. Look, we will let you know as soon as we have made our mind later on in the year.

Kok Ho Leong - *China Yuchai International Limited - CFO*

Yes, generally the Company do not have a recent dividend policy but you can look at our past trends. They may be a good reference for you to extrapolate.

Mohit Khanna - *Value Investment Principals - Analyst*

Great. Thank you so much. Thank you.

Operator

Thank you. With that, I would like to turn the call over to the presenters for some questions through webcast. Please go ahead.

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay. I will take some questions from the webcast. Okay, the first question is, it talks about, again, natural gas engines. It says, what is Yuchai's market share of natural gas engine in China and how about the global market share in natural gas engines?

Now, we -- it's difficult to look at it overall, but I can tell you this, in the bus market I think I believe we have -- we dominate the bus market in terms of natural gas engines. Most of our natural gas engines are sales that come from a bus segment. We sell parts of natural gas in the truck segment as well, but it will not be as high as the bus segment.

Okay. I think the next question I would like to answer is this. China has appetite to modernize the agriculture industry. How manageable is it for CYI?

The central government -- in fact, we have explained last year from the government position. Our agriculture engine has actually grown; grew quite significantly in year 2013. Now, we also understand that the central government is promoting the use of larger harvesting machines instead of labor. Now, this definitely is beneficial for all engine makers, including ourselves, where bigger engines for machinery application -- for this machinery application. So, yes, we do see it as very beneficial. So, yes.



Kok Ho Leong - *China Yuchai International Limited - CFO*

But, as a backdrop of this and so you must acknowledge, 2013 was a very good year in terms of the agricultural factor. The government has given some very generous incentives in 2013 as compared to the previous years and that saw our number grow by a very big growth in these agriculture engines.

Weng Ming Hoh - *China Yuchai International Limited - President*

The next question that I would like to address is talk about the heavy-duty engines. It says, please talk about your market share in heavy-duty engines. We understand it has increased in 2013. How about its growth potential in 2014 and beyond?

Now, as I mentioned earlier, our growth in the heavy-duty engines in 2013 was higher than the industrial growth. So, we did get a little bit of market share there. So, I think this has done well for us. Now, going forward to 2014 and beyond, there again, I think it depends on the enforcement of the National IV standards as an effect of the pre-buy that took place in 2013.

Kok Ho Leong - *China Yuchai International Limited - CFO*

There is a question relating to the free cash flow for operations.

We continue to generate free cash flow in 2013. When we publish the 20F document, you will be able to see from that.

Again, if you look at our past trends, we have been comfortably in the range of positive operating cash flow. That much I can say. The rest probably, the 20F will give you more color to it.

Kok Ho Leong - *China Yuchai International Limited - CFO*

There is a question on the impairment of the joint ventures. At the end of this year, we made some evaluation of some of our joint ventures. There were two that at hand -- at hand and we make a total provision and that accounts for most of the increase in the loss of share of joint venture. One of which is relating to a hospitality business that is owned by our subsidiary. This is actually affected by the overall weakening of hotel market in China, as well as the tightening of the government spending and spending at large. This affects our loss, okay.

Weng Ming Hoh - *China Yuchai International Limited - President*

Okay and there is another question here asking about the foundries. Are the foundries totally done and finished?

And also the next question from the same person, what is the export expectation?

Now, we have completed phase one and phase two of our foundries. That has allowed us to produce in-house about 1m cylinder heads and blocks. Now, the third stage for the -- has just started. So, we will take a little while for that to complete.

And in terms of export expectation, our export sales business has grown quite a bit last year as well. We hope and in fact we expect it to grow again in, to grow again in 2014. (Inaudible).

Kelvin Lai

Okay, there is a question asking what's the CapEx for the 2014 and where is it to be used? And when will the natural gas production line be expanded? And also there is another question that is there - any phase three for the adding capacity to the foundry?

In fact, [at the year] and then we will spend about quite significant sum on the CapEx and then to [analogs] and then comprising for the maintaining CapEx and then the operating facility in the plant. And to meet with the safety requirements and also and then try the improvement of the performance as well. So including the project in there, we support our long-term strategy.

Now, regarding on the foundry, we already had the phase one and phase two and then be completed and that has been answered before. It will be, have a capacity up to a 1m engine checker and enhanced engine capacity. So that we are now spending on the phase three at this stage. But in fact, we have our another phases on the large casting items, and then for the high horse power engines.

Regarding on the natural gas production, actually we already extend our capacity in the year 2013 and then to cope with the increasing demand and the -- because of the high demanding of the gas engines from the market. So, we actually are now expanding the capacity for this.

Kelvin Lai

This, another question is asking about market share in the marine engine and the growth potential.

We would say that in the marine industry experienced a drawback in the last couple of years due to the macroeconomic climates. Also in there, together with excessive capacity in the China shipbuilding industry, so that's it, getting worse of the market.

But, traditionally in Yuchai engines, we only concentrate on the engines for the coastal vessels and for the commercial boats, on the business boats and then the fishing boats as well. So, I think that we didn't have such a significant impact. But having said that, then we still suffer about 10% to 15% reduction in the 2013 comparing to the 2012 levels.

For 2014 we do expect we can return to the 2012 level. Or hopefully then we can still have some sliding growth from there.

Operator

Thank you. We have now reached the end of our question and answer session. I will now turn the call back over to Mr. Hoh for closing remarks. Please go ahead.

Weng Ming Hoh - *China Yuchai International Limited - President*

Thank you all for participating in our fourth quarter and full year 2013 conference call. We look forward to speaking with you again. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may all now disconnect.



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.