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CYD - Q2 2014 China Yuchai International Ltd Earnings Call

EVENT DATE/TIME: AUGUST 11, 2014 / 12:00PM GMT



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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the China Yuchai International Limited Second Quarter 2014 Earnings Webcast. (Operator Instructions) I would now like to turn the conference over to Mr. Kevin Theiss. Please go ahead, sir.

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**Kevin Theiss** - *China Yuchai International Limited - Grayling IR*

Thank you for joining us today and welcome to China Yuchai International Limited's Second Quarter 2014 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 also.

Before we begin, I would 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 risk 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 script or otherwise in the future.

Mr. Hoh will provide a brief overview and summary and then Mr. Leong will review the financial results for the second quarter and six months ended June 30, 2014. 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 in US dollars. All of the financial information presented is reported using International Financial Reporting Standards as issued by the International Accounting Standards Board.

Mr. Hoh, please begin your presentation.



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

Thank you, Kevin. We are pleased with our consistent revenue performance in the second quarter of 2014 in the face of declining industry sales in the commercial vehicle market.

Our higher-priced natural gas and National IV compliant engines enabled us to maintain our revenue notwithstanding fewer unit sales compared to the same period in 2013.

Our ability to reach a similar level of revenue as in the same quarter of 2013 is a sharp contrast to the 13.7% decline in overall commercial vehicle industry unit sales for the second quarter of 2014 -- this excludes gasoline-powered vehicles -- as reported by the China Association of Automobile Manufacturers, CAAM.

We experienced a smaller decline in total unit sales of just 9.5%. This resulted in overall unit sales growth of 2.9% compared to the 5.2% decline in the unit sales for the commercial vehicle industry in the first six months of 2014, as reported by CAAM.

The directive from China's Ministry for Industry and Information Technology in late April 2014, providing that sales of National III vehicles are to cease by December 31 of 2014, has impacted the engine manufacturing industry. While there is still demand for National III compliant vehicles, the demand is currently being satisfied from existing inventories.

Although the National IV emission standards for diesel engines was implemented nationwide on July 1, 2013, enforcement of the new standards has thus far been uneven, causing potential engine purchasers to adopt a wait-and-see approach before committing to large orders for National IV compliant engines. As a result, overall industry unit sales of new trucks was down 14.9% in the second quarter.

Heavy duty truck unit sales suffered the least among the truck segments with only a 3.4% decline in the second quarter of 2014 compared to the same quarter in 2013.

Industry unit sales of new buses were more stable in the second quarter of 2014 but were still 5.0% below the same quarter in 2013. We maintained market leadership for bus engines as our engine sales grew in line with industry trends. We were pleased to supply 800 engines for New-Energy buses to Fushun in Liaoning Province in the second quarter of 2014. 600 buses were propelled by our gas-electric hybrid engines and the remaining 200 buses were fitted with our liquefied natural gas engines.

We sold over 8,800 natural gas engines in the second quarter, making a total of over 17,600 units sold in the first half of 2014, representing a growth of 37.6%. The majority of our natural gas engines were sold to the municipal bus market to serve the many large metropolitan areas in China. Natural gas engines are less expensive to run and release fewer pollutants compared with their diesel counterparts. Also the natural gas infrastructure for local buses is already in place as compared to long-distance trucks, which are awaiting the refueling infrastructure to build across China. With our strong reputation and dominant market share in the bus segment, we continue to receive expressions of interest from urban bus companies for our natural gas and hybrid engines.

Our unit sales in the off-road market such as agricultural segment continued to increase in the second quarter of 2014. Government incentives have encouraged the purchase of more farm equipment utilizing diesel engines. Additionally, sales to the marine and power generator markets improved in the second quarter of 2014 compared to the same period last year.

Our current line of diesel and natural gas engines and new high horsepower engines for these segments enhanced our ability to capture market share. We are confident that the off-road market will continue to present new growth opportunities for us.

One of our key growth strategies is an emphasis and research and development, R&D, so that we can supply improved advanced engines to a large number of diverse market segments, meeting their individual specific requirements. In addition to the truck and bus markets, our engines target the marine, construction, agriculture, mining and power generation markets. Our broad range of engine technologies include advanced diesel, natural gas and hybrid electric engines. These various technologies create opportunities to expand customer relationships and attract new vehicle OEMs. Investment in R&D grew by 5.4% to RMB122.2 million in the second quarter of 2014 and 7.8% to RMB227.1 million in the first half of 2014.



Eight new engines with better performance to launch in 2014, following the 12 new engines introduced in 2013. This constant innovation has strengthened our product offering and enabled us to expand our market share.

Research and development spending in 2014 was focused on enhancing our portfolios of engines to meet the growing demand from customers. We are a strong advocate for strict emission standards to improve China's air quality and emissions technology remains the forefront of our research and development. In addition to a wide range of engines complying with National IV emission standards, we have a growing pool of engines meeting the more advanced National V emission standards. It is our aim to be the leader in emissions technology in China and our R&D efforts also target ongoing enhancements for engine performance and quality.

In the second quarter of 2014, we announced our intention to acquire control of our manufacturing joint venture, Yuchai Remanufacturing Services (Suzhou) Company Limited, YRC through an equity transfer agreement whereby Caterpillar China Investment Company Limited transfers its 49% ownership to our main operating subsidiary Guangxi Yuchai Machinery Company Limited, GYMCL. As YRC has benefited from Caterpillar's expertise, we believe it was an appropriate time slot for GYMCL to assume control of YRC to reap the advantages from the integration of the remanufacturing business with GYMCL's manufacturing operation, since most of the engines serviced were produced by GYMCL.

Our dedication to constant improvement carries over to our financial management strategies as well. We adjust our strategies to match conditions in the money and debt market, enabling us to maintain a strong financial position. For example, when interest rates were unfavorable, we utilized our cash resources and reduced the discounting of our bills to decrease financial expenses.

Our cash position increased to RMB2.4 billion in the second quarter of 2014, compare this to RMB2.1 billion in the 2014 first quarter. Trade and bills receivables were reduced to RMB5.3 billion in the second quarter of 2014 from RMB5.8 billion in the first quarter.

Our shareholders continue to benefit from our success. We paid out a dividend of \$1.20 per ordinary share to shareholders in July 2014 in recognition of our strong 2013 performance. Shareholders were given the option of receiving the dividend entirely in cash or new shares. As a result of this latest dividend, our outstanding share capital increased from 37,267,673 shares to 38,195,706 shares.

As we continue into the second half of 2014 the Chinese economy and outlook for the truck market remains unclear. However, we are confident that inventory restocking to replace older vehicles and government policies will stabilize market demand in the future. We believe our broad range of products and our ability to continually develop and innovate will continue to drive success.

We are able to quickly adjust to market opportunities in the truck segment and have maintained our leadership in the more stable bus market. Many of our engines are enjoying increasing acceptance in their respective off-road markets and our new high horsepower engines are beginning to see improvement in sales. Our technologically-advanced engines, efficient production and the most expansive service network in China enable us to consequently meet and exceed customers' expectations.

We continue to build shareholder value by consistently generating positive cash flow. With that, let me now turn the call over to Kok Ho Leong, our CFO, to provide more details on the financial results.

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

Thank you, Weng Ming. Good morning and good evening. I will now provide some more details in the second quarter and six months financial performance.

Revenue for the second quarter of 2014 was RMB4.2 billion/\$684.6 million, which was similar to the second quarter of 2013. Revenue was sustained mainly by higher engine sales for agricultural applications and stronger sales of higher priced natural gas and National IV compliant engines.

The total number of engines sold by GYMCL during the second quarter of 2014 was 127,799 units compared to 141,147 units in the same quarter in 2013, a 9.5% decrease which compared favorably with the industry decline of 13.7% in the unit sales of commercial vehicles, excluding gasoline-powered vehicles, in the second quarter of 2014, as reported by the China Association of Automobile Manufacturers, or CAAM.

Gross profit was RMB816.8 million/\$132.8 million, compared with RMB810.8 million in the second quarter of 2013. Gross margin increased slightly to 19.4% in the second quarter of 2014 compared with 19.3% a year ago. The increasing gross margin was mainly attributable to a change in sales mix as more natural gas engines and National IV compliant engines were sold in the second quarter of 2014 for on-road and off-road markets. Sales of plug-in hybrid engines to municipal bus fleet also contributed to higher gross margins.

Other operating income was RMB12.0 million/\$2.0 million, compared with RMB36.6 million in the second quarter of 2013. This decrease was mainly due to lower interest income from bank deposits and higher foreign exchange revaluation losses. In addition, there was a gain from the sale of assets in the second quarter of 2013.

Research and development, R&D, expenses increased by 5.4% to RMB122.2 million/ \$19.9 million, from RMB115.9 million in the second quarter of 2013. The increase was mainly due to research and development of new engines as well as continued initiatives to improve engine performance and quality. As a percentage of revenue R&D spending increased to 2.9% compared with 2.8% in the second quarter of 2013.

Selling, general and administrative, SG&A, expenses were RMB379.5 million/ \$61.7 million, a reduction from RMB397.7 million in the second quarter of 2013. The decreases in expenses primarily resulted from reduced warranty costs and lower freight expenditure as fewer units were shipped during the second quarter of 2014. SG&A expenses represented 9.0% of revenue compared with 9.5% in the same quarter a year ago.

Operating profit declined to RMB327.2 million/\$53.2 million, from RMB333.8 million in the second quarter of 2013. The reduction in operating profit was mainly due to lower other operating income and higher R&D expenses. The operating margin was 7.8% compared with 7.9% in the second quarter of 2013.

Finance costs decreased to RMB30.7 million/\$5.0 million, from RMB39.6 million in the second quarter of 2013, a decrease of RMB8.9 million or 22.6%. This was mainly due to less bills discounting and lower interest costs from the issuance of three-year medium notes amounting to RMB1.0 billion in May 2013 at a fixed annual interest rate of 4.69%.

The Company's share in the loss of joint ventures was RMB9.0 million/ \$1.5 million, compared with a loss of RMB10.0 million in the second quarter of 2013.

For the quarter ended June 30th, 2014, total net profit attributable to China Yuchai's shareholders was RMB165.4 million/\$26.9 million, or earnings per share of RMB4.44/\$0.72, compared with RMB166.3 million or earnings per share of RMB4.46 in the same quarter of 2013.

Let me now go over the results for the six months ended June 30th 2014. Revenue was RMB8.8 billion/\$1.4 billion, compared with RMB8.0 billion in the same period last year. The increase in revenue was RMB752.0 million or 9.4% as compared with the same six-month period in 2013. The total number of engines sold by GYMCL during the first six months of 2014 was 279,708 units compared with 271,891 units in the same period last year, representing an increase of 7817 units or 2.9%.

This increase compares favorably with the industry sales decrease of 5.2% in the commercial vehicle units, excluding gasoline-powered vehicles in the first six months of 2014 as reported by CAAM.

Higher engine sales were mainly attributable to increased sales to the heavy-duty truck and natural gas engine markets and increased engine sales for agricultural applications in the first half of 2014. Gross profit was RMB1.6 billion/\$260.9 million, compared with RMB1.5 billion in the same period last year. Gross margin decreased to 18.3% as compared with 19.3% a year ago. This decline was mainly attributable to a shift in the sales mix to higher engine sales of agricultural applications and lower bus sales.

Other operating income was RMB41.5 million/\$6.8 million, a decrease of RMB16.0 million from RMB57.5 million in the same period last year. This decrease was mainly due to lower interest income from bank deposits offset by lower foreign exchange revaluation losses. In addition, there was a gain from the sale of assets in the same period last year.



Research and development, R&D, expenses were RMB227.1 million/\$36.9 million, compared with RMB210.7 million in the same period in 2013, an increase of 7.8%. The increase in R&D expenses was mainly related to higher spending in the research and development of new engines and ongoing initiatives to improve engine quality. As a percentage of revenue, R&D spending was 2.6% in the first six months of both 2014 and 2013.

Selling, general and administrative, SG&A, expenses were RMB745.7 million/\$121.2 million, up from RMB722.0 million in the same period last year, an increase of RMB23.7 million or 3.3%.

The increase in expenses was mainly due to higher unit sales in the first six months of 2014, as compared with the same period in 2013. SG&A expenses represented 8.5% of revenue for the first six months of 2014 compared with 9.0% in the same period last year.

Operating profit increased to RMB673.9 million/\$109.5 million, from RMB672.7 million for the same period last year, mainly due to an increase in gross profit partially offset by higher R&D and SG&A expenses.

The operating margin was 7.7% compared with 8.4% in the same period last year.

Finance costs declined to RMB68.5 million/\$11.1 million, from RMB73.8 million in the same period last year, a decrease of RMB5.3 million or 7.2%. The decrease was mainly attributable to less bill discounting and lower interest costs from the issuance of three-year medium term notes amounting to RMB1.0 billion in May 2013 at fixed annual interest rate of 4.69%.

The Company's share in the loss of joint ventures was RMB24.2 million/ \$3.9 million, compared with a loss of RMB25.7 million in the same period of 2013. For the six months ended June 30th, 2014, total net profit attributable to China Yuchai's shareholders was RMB345.3 million/\$56.1 million, or earnings per share of RMB9.27/\$1.51, compared with RMB329.8 million or earnings per share of RMB9.12 in the same period in 2013.

I shall now go to the balance sheet highlights as at June 30th, 2014. Cash and bank balances were RMB2.4 billion/\$385.6 million, compared with RMB3.6 billion at the end of 2013. Trade and bills receivables were RMB8.5 billion/\$1.4 billion, compared with RMB7.4 billion at the end of 2013.

Short-term and long-term interest-bearing loans and borrowings were RMB2.1 billion/\$343.1 million, compared with RMB2.3 billion at the end of 2013. Inventories were RMB2.2 billion/\$355.9 million, compared with RMB2.3 billion at the end of 2013.

We remain confident in Yuchai's ability to be successful in the face of a challenging investment environment. Our broad range of product offerings, constant innovation and leadership in the key market segments established a strong foundation for continued success.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Alex Potter from Piper Jaffray.

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**Alex Potter** - Piper Jaffray & Co - Analyst

Hi, guys.

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

Hi Alex, how are you?

**Alex Potter** - Piper Jaffray & Co - Analyst

I'm doing okay. So I guess my first couple of questions here are around NS IV. What percentage of your engine volume now would you say is compliant with the new emission standards?

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

I'll answer in two parts, Alex, the bus and the truck. The bus market, because we sold more to the bus market to the big cities, I would say in the vicinity of 80%, 90% will be National IV and V compliant. As for the trucks, it's increasing. So I think after about June we would have about 30% that's National IV compliant.

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**Alex Potter** - Piper Jaffray & Co - Analyst

Okay, that's good. Do you think then that once we get to January 1, 2015, do you think it will be a 100% of your trucks and 100% of your bus engines are all NS IV compliant? Do you think that that's going to be a hard fast deadline no matter what?

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

Yes, I think this time around the Government is pretty strict and they mean business, so I expect it to be so. If not, it will be very close to it.

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**Alex Potter** - Piper Jaffray & Co - Analyst

Okay, good. That's very helpful. Then I guess another question, and a related question. On the truck side do you see a difference right now between National IV compliance for light duty and medium duty and heavy duty or are they all approximately 30%?

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

I think it is more heavy duty right now. I think the heavy duty trucks, they go for a longer distance and to bigger cities; whereas the light ones, they operate within those smaller towns where the enforcement is obviously not so strict or maybe haven't started enforcing, then the percentage of these National IV standards will be lower.

So yes, in short, I think the bigger, heavier duty ones, the heavy duty and medium duty will be more National IV compliant than the light ones.

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**Alex Potter** - Piper Jaffray & Co - Analyst

Okay. That makes sense. Then I suppose also, do you think if you kind of put on your forecasting goggles here, if you look toward 2015, do you think that there's going to be one kind of last burst of I guess pre-buying activity in maybe Q4 and then 2015 directionally should be a down year in terms of volume? Do you think that's a fair way to think about the market over the next year?

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

I do not disagree with you. I think there's good value to be -- I mean the market for the same quarter of this year is actually quite bad. I think also the whole industry is digesting the remaining National III compliant engines.

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Now, I would think, going to the last part of this year, Q4 this year, I would expect to see a spike, a little bit of spike, but I don't know how much it's going to be. Many of the big cities have already implemented the National IV and enforce the National IV so there will be some spikes. Okay, going back -- going forward into 2015 I agree with you, you should maybe see some dip in the truck market.

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**Alex Potter** - *Piper Jaffray & Co - Analyst*

Okay, that's very good. My last question here is international revenue right now for you guys, what is that as a percentage of total sales, I guess up to the most recent quarter, where are you for international and what do you think that will be about three, five years down the road and what regions? Thanks.

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

Our international sales in fact have been growing quite well in the last year or so, the last one or two years. Now, I will give you an indication in total, this includes engines that we sold through our OEMs as well as directly by ourselves.

Last year we grew quite typically in the 20s. To far this year, we are growing by about 17%. So I expect this year as a percentage of volume, we expect the international piece for those that we sold through OEMs instead of directly ourselves, to reach perhaps 8%, 9% of our total sales.

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**Alex Potter** - *Piper Jaffray & Co - Analyst*

Okay, very good. Thanks.

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

Going forward, I think we expect that we will try to make that better.

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**Alex Potter** - *Piper Jaffray & Co - Analyst*

Perfect, thank you.

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

All right.

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**Operator**

Mohit Khanna from Value Investment Principals.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Hello, guys. My question is regarding the division between the trucks' and the buses' engines. And also could you just please just throw some light on the working capital management that you are likely to see in coming quarters forward?





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

Sorry, can you repeat again on the first part of the question?

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**Mohit Khanna** - *Value Investment Principals - Analyst*

The division between how many engines are sold to the buses and the trucks division, for the quarter.

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

Well, the powerful division is still the on-road business, for the division I think within truck and buses, about one-third is buses.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay. Do you see a possibility of the buses business improving a bit more than the trucks, and in 2015 we expect a softer truck market?

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

Are you talking about 2015?

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Yes.

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

Okay. Now, as I said earlier, I would expect the truck market to dip slightly for 2015 because of pre-buy. Now, for buses we are already selling to the biggest cities are already using National IV engines or better, or National V. So I do not expect the bus segment to dip much at all.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay. And on the working capital management side, what would be the normalized level of accounts receivable on the balance sheet if we discounted as per normal?

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

From year-end or no?

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**Mohit Khanna** - *Value Investment Principals - Analyst*

For the year-end.

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

No, I think you'll probably see it in all the year-end financial statements. We built into our contracts, most of our contracts, is what you may call it an incentive for all customers to pay us either by bills or by cash towards the end of the year.

So come end of the year our actual receivables is actually very low. Most of our receivables are actually bills issued by banks, which is in a way guaranteed. (Inaudible) year. It is the same every year.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

So typical seasonality in the business you should see your receivables should be going down and the cash on the balance sheet should be coming up?

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

No, not in that respect. You see, in China they don't pay you cash. When the debt is due for payment they give you a bank bill. So you'll see our trade bills going up, accounts receivable going down.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay, and that should convert to cash for the Company in how much time?

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

Depending on our bills, three months, six months, some even nine months. But they're also depending on the market.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Or the average?

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

Average about 90 days but is also depending on the money market, because when the money market is tight, we may want to keep the bills. When the money market rate is good, we will discount more of our bills; that's the strategy we have. That is the reason why if you look at our balance sheet we do constantly maintain a certain buffer of working capital.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay. Thank you so much.

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

Okay. We will take a question from the webcast. Okay, Kok Ho there is a question to you. Please explain why it was considered necessary to offer a dividend or shares at this time, will it be offered also going on a regular basis.

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

Yes. The initiative to have a dividend both in the form of cash and share is also partly suggested by one of the shareholders. We have taken in his advice, his suggestion, we made the evaluation. Whether it will be on a regular basis or not, that will depend because at the point of time for the dividend, the Board will deliberate again and evaluate it, yes.

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

There is another question, that's on the equity compensation plan. Weng Ming, you want to say something on the equity plan?

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

Okay, I think the equity compensation plan is something that's actually very much what I call in line with the market; there are many companies offer incentives for the management to perform. So now it's mainly issued to the key employees of the Company, and but not to the directors.

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

Okay, there is a follow-up question on the reman. The question is who initiated the transaction to acquire the remainder of the engine remanufacturing JV, Yuchai or Caterpillar? When is the JV expected to become profitable?

Now, it's actually a mutual agreement between both parties. Now, the rational for that is that since the facility services mostly Yuchai manufactured or produce engines, it makes a lot sense for Yuchai to actually acquire the remaining shares and take control of the operations.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay.

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**Operator**

Paul Gong from Citigroup.

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**Paul Gong** - *Citi Research - Analyst*

Hi Weng Ming, hi Kok Hoh. Thanks for taking my questions.

Actually, I have seen the industry data for both the trucks and the buses. It's more understandable, like the second quarter weakness, with the weakness of the truck segment, but I also see that bus has been relatively weaker compared with the first quarter of this year.

What do you think is the main reason? Is it due to the base effect or or is there anything else slowing it down? As you just mentioned the National IV standard didn't have significant impact in terms of the weakness or strength or the panic purchase buy or destocking, so could you please give a little bit of color on what happened in the bus segment please?

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

Okay. In the bus segment, there are a few areas that we look at. One is within the cities, or the local bus. Another one is the intercity buses and then there's the school bus.

Now, those buses within the cities, they mostly use National IV gas engines or above emissions standard compliant engines to them. That's why we do not see much more movement there.

In fact, where we see a decline is in the intercity buses. I guess part of the reasons is that as you know in China, there's a lot of high speed rail been built and the prices of course are a little bit higher than the fare for the buses. But, it's a lot more comfortable I mean we've ever been (inaudible) before.

So that in a way had some impact on the bus market for us. Also in this year we saw some decline in the school buses too.

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**Paul Gong** - *Citi Research - Analyst*

So in terms of a break-down, could you please give a little bit of color, like what is roughly our proportion of local bus, intercity bus and the school bus respectively?

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

School bus is quite small. Between the intercity and the local bus, the breakdown is probably about fifty-fifty right now.

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**Paul Gong** - *Citi Research - Analyst*

So in terms of the height from the threats from high-speed rail, so when do you foresee this would kind of weaken compared with where it is currently now, and so how can we maybe doubt the cyclical of this intercity bus segment?

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**Paul Gong** - *Citi Research - Analyst*

Sorry, can you say that again? I didn't quite catch it.

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**Paul Gong** - *Citi Research - Analyst*

Yes, how should we estimate when this would pick up or become a real time weakness? Why it is suddenly in the second quarter instead of first quarter?

Because we know the high-speed rail like that are built every year. They are grabbing market share from the intercity buses, perhaps every year. So why is it sudden in the second quarter versus first quarter, it has been hurt by the high-speed rail?

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

Well, I also guess for the intercity buses, I think we have to be associated to the smaller cities. I would guess that they will also be some National IV engines compliance impact in there, although not in the big cities.

So I think as more and more high-speed rail has been built, as more and more we have lines that become available, the impact gradually will increase.

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**Paul Gong** - *Citi Research - Analyst*

So you are kind of not optimistic on the intercity bus over the longer term?

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

Well, at the moment, I think the bus market is quite stable. I think in the longer term intercity bus will be affected by the high-speed rail, I would think so, yes. Now, how bad, how much is hard to guess, hard to forecast right now. For us I think there is an impact, and it's not that bad at this point in time.

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**Paul Gong** - *Citi Research - Analyst*

Okay, I see. Thank you very much.

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

Okay.

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**Operator**

Mohit Khanna from Value Investment Principals.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Yes. Just a follow-up on JVs. So after the Cat JV, how are the other two JVs progressing and what can be expected from them over the next few quarters?

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

The JVs still are in the development mode. Actually in the case of the one in Wuhu, we've done very well. Frankly, the sales have increased significantly this year compared to last year, but it still hasn't quite reached the breakeven point yet.

We hope it will soon; hopefully next year or the year after that, we should get there. Whereas the one with Geely has still some way to go.

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**Mohit Khanna** - *Value Investment Principals - Analyst*

Okay. Thank you.

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

Okay, there is a question here asking us when will investors, when can investors with visit CYI facilities in China. We hope to arrange one soon. We have been receiving some visits from analysts and investors, as and when they express interest on a needs basis. So if any of you want to come you can let me know, but we will be looking at something, for a group tour hopefully the later part of this year or maybe early next year.

Weng Ming Hoh Now there is another question here, again along the lines of the export markets. It says please provide an update on the export business and the new markets being penetrated.

As I said earlier, our export market has been growing quite well in the last two years. This year, so far this year we have grown by about 70%, close to 70%. Now, for us being an Asian company, the bulk of our customers actually or the bulk of our engines have gone to the Asian countries. They



account for more than 50% of our export sales. Now, the next part of it, the next markets we have quite a decent penetration are the African continent and the Latin American continent. We also sold some to the Middle East as well.

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**Operator**

Thank you. We have now reached the end of our Q&A session, so I will turn the call back over to Mr. Hoh.

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

Thank you all for participating in our 2014 Second Quarter Conference Call. We look forward to speaking with you again. Thank you.

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