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CYD - Fourth Quarter and Full Year 2012 China Yuchai International Limited Earnings Conference Call

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CORPORATE PARTICIPANTS

Kevin Theiss *Grayling USA - IR*

Benny Goh *China Yuchai International - President*

Kok Ho Leong *China Yuchai International - CFO*

CONFERENCE CALL PARTICIPANTS

Alex Potter *Piper Jaffray - Analyst*

Sandy Mehta *Value Investments - Analyst*

David Raso *ISI Group - Analyst*

Gerwin Ho *Citi Research - Analyst*

Andrew Casey *Wells Fargo - Analyst*

Ravi Gill *Goldman Sachs - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the China Yuchai International Limited fourth quarter and full year 2012 earnings conference call and webcast. At this point in time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions). I must advise you that this conference is being recorded today, Wednesday, February 27, 2013.

I would now like to hand the conference over to Mr. Kevin Theiss. Thank you. Sir, please go ahead.

Kevin Theiss - *Grayling USA - IR*

Thank you for joining us today, and welcome to China Yuchai International Limited's fourth quarter and full year 2012 earnings conference call and webcast. My name is Kevin Theiss and I am with Grayling, China Yuchai's US Investor Relations adviser. Joining us today are Mr. Benny H. Goh and Mr. Kok Ho Leong, President and Chief Financial Officer of CYI respectively.

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 conditions.

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 the conference call or otherwise, in the future.

Investors should note that the Company has not finalized its consolidated financial results for fiscal year 2012. The financial information of the Company presented above is unaudited and may differ materially from the audited financial statements of the Company for fiscal year 2012 to be released when it is available.

Mr. Goh will provide a brief overview and summary and then Mr. Leong will review the financial results for the fourth quarter of 2012 and for the full year ended December 31, 2012. 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.

Mr. Goh, please start your presentation.

Benny Goh - *China Yuchai International - President*

Thank you, Kevin. I am pleased to report that our investments in research and development (R&D), spanning the full range of our diesel and gas engine products, continue to pay off, enabling us to capitalize on growth areas within the increasingly challenging automotive sector in China.

While the economic slowdown in China last year had a severe impact on the automotive industry, there were areas of opportunity within the bus and natural gas engine markets.

In 2012, the China Association of Automotive Manufacturers (CAAM) reported a 9% decline in diesel-powered commercial vehicle sales, a 10.3% decrease in diesel truck sales and a 28.6% decline in heavy-duty diesel trucks. However, bus market sales increased 2.1% in 2012 compared with 2011.

In the fourth quarter of 2012, CAAM reported that the heavy-duty diesel vehicle market continued to be weak with large bus and heavy-duty truck sales down over 18%, but mini and light-duty truck sales were up by 7.5% over the fourth quarter of 2011. Sales of light bus and medium-duty truck sales were 14.5% and 16.4% ahead of last year's quarter, respectively.

While sales of diesel trucks continue to be driven by the transport of goods, as growth in the construction industry has slowed, the rapidly expanding transportation needs of China's many cities, changes in school bus requirements and the rapidly expanding highway system have all created sales opportunities in the bus segment.

As the leading supplier of engines in the bus market, we had a number of important developments in 2012. First, due to their low emissions and high horsepower, our natural gas engines are well suited for large buses and have been widely installed in the metro bus markets in China's first-tier cities such as Shanghai and Beijing. Since buses travel locally and return to their home base, natural gas engines are ideal within a metro area where refueling is easily accomplished. As the refueling infrastructure continues to be expanded along highways between cities, natural gas engines are expected to become more appealing for longer distance bus travel.

One of our natural gas engines becomes -- became certified for operation in buses at high altitudes in 2012. This is especially significant in our effort to position Yuchai to operate in the Northwest China region. Our natural gas engines have been penetrating the key Shaanxi Province markets in Northwest China with increasing demand from municipal bus, tour coach and school bus operators in various Shaanxi municipalities including Yulin, Baoji, Yan'an, Tongchuan and Hanzhong. Some of these municipalities are first time purchasers of our natural gas engines.

Our new Euro V-compliant natural gas engine is powering 33 new buses used by the Hangzhou Public Transport Corporation and the Nanning Public Transport Corporation selected one of our diesel engine models to power 100 of its new double-decker buses. We look forward to further extending our leadership in the Chinese bus market in 2013.

In 2012, we sold 18,000 natural gas engines, an increase of 40% from the 13,000 units in 2011. As we introduce more natural gas engine models and our new gas engine development project at our main manufacturing facility at Yulin City nears completion, we expect our sales to increase.

Compressed natural gas (CNG) and liquefied natural gas (LNG) engines are being introduced into the truck market and bus market, and new high horsepower natural gas engines are being introduced for the off-road markets such as marine propulsion, power generation and for mining and construction vehicles. Some of these new off-road engines are much larger, up to 53 liters as compared with our traditional engines for the truck and bus markets.

During the fourth quarter of 2012, we sold 92,996 engine units compared with 104,352 units in the fourth quarter of 2011.

Our net revenue for the fourth quarter of 2012 was RMB3.26b ($519.3m) compared with RMB3.75b in the fourth quarter of 2011.

Our gross margin was lower in the fourth quarter of 2012 compared to the same period of 2011, due to a shift in product mix to more light-duty engines and in order to maintain our market position. Higher plant overhead per unit and lower unit sales volume also contributed to the lower gross margin.

To stay ahead of the curve, we continue to invest in R&D. In the fourth quarter of 2012, we increased R&D expenditures to nearly RMB102.7m. As a percentage of net revenue, R&D spending rose to 3.1% compared with 2.3% in the fourth quarter of 2011. We are investing in the development of new engines such as high horsepower engines, hybrid propulsion and natural gas engines as well as leading edge emission reduction technologies and fuel-saving improvements. We believe that the performance improvements and cost savings from our technology leadership are important purchasing drivers for our customers and end users.

Construction on our new R&D Institute located in the High-Tech Development Zone of Nanning has completed and trial operations will commence over the next few months. This R&D Institute will further enhance our ability to design, build and supply innovations in performance, reliability and emissions to meet global standards. The R&D Institute will enlarge our knowledge base and build upon our already impressive list of technological innovations to boost Yuchai's brand reputation among current and potential customers.

Production at Phase 2 of our foundry expansion is expected to begin in March 2013. With full production in Phases 1 and 2 of our foundry expansion, total capacity will reach 1m engine heads and blocks. This capacity makes us the largest foundry and engine casting facility in China.

I shall now provide a brief update on our joint ventures.

Our joint venture with Geely located in Jining, Shandong Province now owns the technology for the 4D20 diesel engine. Tests on the second-generation prototype engine, which is targeted for use in passenger cars, are expected to be completed by the summer of 2013.

Our remanufacturing joint venture with Caterpillar is another green project helping to protect the environment and conserve natural resources. Full remanufacturing operations at the permanent facility located at Suzhou Industrial Park facility are imminent. Engine and component remanufacturing is still relatively new in China, but it is another avenue through which to extend Yuchai's industry leadership and provide a unique service to our customers. Our 2,800 service centers, the largest service network in China, are the foundation for creating demand for these remanufactured engines and parts.

Despite the recent slowdown, we believe our heavy-duty vehicle market in China continues to be very attractive over the long term. Our goal is to become one of the major players in the heavy-duty engine segment by 2015. We have in place our high horse power project, which was launched last year. Our annual production capacity at our joint venture with CIMC-Chery for our 6K engine is now 30,000 units. In addition to our original diesel design, a heavy-duty, natural gas version of the 6K is currently available with the highest power at 450 to 500 horsepower in this engine class, but with lower emissions compared with diesel engines. The YC6K engine is a next-generation, heavy-duty engine that adds to our existing portfolio of 6L, 6M, 6G and 6MK heavy-duty engines.

Based on unit sales, we continued to lead the commercial engine industry in China in 2012. We already have the broadest range of diesel engines in the industry and we continue to add new models and complementary natural gas models, which we believe will keep us competitive and enable us to penetrate new and rapidly growing markets. We have placed particular emphasis on being the domestic leader in emissions reduction. And we have a wide range of National IV engine models and we are introducing a number of National V and VI compliant engines to continue diversifying our product line and capture market share. This together with our extensive service network will position us to capitalize on a rebound in the commercial vehicle market.

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

Kok Ho Leong - *China Yuchai International - CFO*

Thank you, Benny. Let me first walk you through our fourth-quarter 2012 financial results and then we will go over the full year's results.

Our net revenue for the fourth quarter of 2012 was RMB3.26b ($519.3m) compared with RMB3.75b in the fourth quarter of 2011. The revenue decrease was mainly due to weaker demand in the commercial truck market. The total number of diesel engines sold by GYMCL during the fourth quarter of 2012 was 92,996 units compared with 104,352 units in the fourth quarter of 2011, a decrease of 11,356 units or 10.9%.

Gross profit was RMB804.9m ($128.1m) compared with RMB1.04b in the fourth quarter of 2011. Gross margin was 24.7% in the fourth quarter of 2012 as compared with 27.7% in the same quarter of 2011. The lower gross margin compared to the same quarter of 2011 was attributable to the sales mix as more light-duty engines were sold in the fourth quarter of 2012. In addition, the lower gross profit margin was mainly due to higher plant overhead per unit, as the sales volume was lower compared to the fourth quarter in 2011.

Other operating income was RMB45.3m ($7.2m) compared with RMB58.3m in the fourth quarter of 2011. This decrease was mainly attributable to losses from the disposal of subsidiaries and foreign exchange revaluation, which was partially offset by higher interest income from bank deposits.

Research and development (R&D) expenses were RMB102.7m ($16.3m) compared with RMB84.7m in the fourth quarter of 2011, an increase of 21.2%. As a percentage of net revenue, R&D spending rose to 3.1% compared with 2.3% in the fourth quarter of 2011. The increase in R&D expenses was mainly due to increased costs for developing new products including lower emission engines, natural gas engines and higher -- and high horsepower products, as well as continued quality improvement initiatives.

Selling, general & administrative (SG&A) expenses were RMB365.2m ($58.1m) compared with RMB360.2m in the fourth quarter of 2011, an increase of RMB5.0m or 1.4%. SG&A expenses represented 11.2% of fourth quarter 2012's net revenue compared with 9.6% in the same quarter a year ago. The higher SG&A expenses on a year-over-year basis were mainly due to the accrual of a local municipal levy introduced recently.

Operating profit was RMB382.3m ($60.8m) a decrease of RMB267.2m, from RMB649.4m in the fourth quarter of 2011. The decrease was mainly due to lower gross profit. The operating margin was 11.7% compared with 17.3% in the fourth quarter of 2011.

Finance costs declined to RMB46.9m ($7.5m) from RMB56.0m in the fourth quarter of 2011. The reduced finance costs were due to lower average borrowings.

The share of joint ventures was a loss of RMB8.1m ($1.3m) compared with a loss of RMB44.2m in the fourth quarter of 2011. In 2011, the share of loss was higher due to an impairment of a joint venture.

In the fourth quarter of 2012, total net profit attributable to China Yuchai's shareholders was RMB217.8m ($34.7m) from RMB369.3m in the fourth quarter of 2011. Earnings per share were RMB5.84 ($0.93) down from RMB9.91 in the fourth quarter of 2011.

Now I shall go to the financial highlights for the fiscal year ended December 31, 2012.

Net revenue for 2012 was RMB13.45b ($2.14b) compared with RMB15.44b in the same period in 2011. The total number of diesel engines sold by GYMCL in 2012 was 431,350 units compared with 510,777 units in 2011, a decrease of 79,427 units or 15.6%. This reduction was mainly due to continued weaker demand in the commercial vehicle market.

Gross profit was RMB2.88b ($458.2m) compared with RMB3.44b in 2011. Gross margin was 21.4% in 2012 as compared with 22.3% a year ago. The lower gross margin was attributable to a shift in the sales mix to more light-duty engines with lower gross profit margins compared to medium- and heavy-duty engines. In addition, the gross profit and margins were affected by higher factory overheads, depreciation and higher direct labor costs, but partially offset by lower raw material costs.

Other operating income was RMB123.7m ($19.7m), an increase of RMB50.6m from RMB73.1m a year ago. This increase was mainly due to higher income from bank deposits.

Research and development (R&D) expenses were RMB373.7m ($59.5m) compared with RMB328.1m in 2011, an increase of 13.9%. As a percentage of net revenue, R&D spending rose to 2.8% compared with 2.1% in last year. The increase in R&D expenses were mainly due to increased costs for developing new products including lower emission engines, natural gas engines and high horsepower products, as well as continued quality improvement initiatives.

Selling, general and administrative expenses (SG&A) expenses were RMB1.48b ($234.7m), down from RMB1.65b in 2011, a decrease of 10.7%. This decrease reflects lower sales volume and cost controls. SG&A expenses were at 11.0% of net revenue for 2012, compared with 10.7% for 2011.

Operating profit declined to RMB1.15b ($183.7m) from RMB1.54b in 2011. This decrease was mainly due to lower gross profit. The operating margin was 8.6% in 2012 compared with 9.9% in 2011.

Finance costs rose to RMB213m ($33.9m) from RMB156.2m in 2011. The increase in finance costs was due to increased average borrowings.

In 2012, GYMCL issued a total of RMB1.00b of short-term financing bonds (STFBs) as compared to RMB2.39b issued in 2011. The remaining funding requirements in 2012 were fulfilled by a mix of financing instruments such as bills discounting and other short-term loans.

The share of joint ventures was a loss of RMB39.2m ($6.2m) compared with a loss of RMB81.2m last year. In 2011, the share of loss was higher due to an impairment of a joint venture.

For the fiscal year ended December 31, 2012, total net profit attributable to China Yuchai's shareholders was RMB563.9m ($89.7m) or earnings per share of RMB15.13 ($2.41) compared with RMB818.5m or earnings per share of RMB21.96 in 2011.

As of December 31, 2012, a total of 37,267,673 shares were issued and outstanding.

May now proceed to the balance sheet highlights as at December 31, 2012.

Cash and bank balances were RMB3.16b ($502.3m) compared with RMB4.12b at December 31, 2011. This decrease of RMB0.97b was mainly attributable to the repayment of STFBs in 2012.

Trade and bills receivable were RMB6.58b ($1.05b) compared with RMB6.69b at the end of 2011.

Net inventory was RMB2.01b ($319.9m) down from RMB2.42b at the end of 2011.

Short- and long-term borrowings were RMB2.45b ($389.9m), down from RMB3.70b at the end of December 2011, a decrease of RMB1.25b.

In 2011, GYMCL issued STFBs amounting to RMB2.39b over three tranches in March, July and November. Each tranche was fully repaid on their respective maturity dates in 2012. On August 28, 2012, GYMCL issued STFBs amounting to RMB1.0b, at a fixed annual interest rate of 4.45% with a maturity date of August 29, 2013.

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

QUESTIONS AND ANSWERS

Operator

Thank you very much, sir. (Operator Instructions). Your first question comes from Alex Potter from Piper Jaffray. Please ask your question.

Alex Potter - *Piper Jaffray - Analyst*

Hi, guys.

Benny Goh - *China Yuchai International - President*

Hi, Alex. Good morning.

Alex Potter - *Piper Jaffray - Analyst*

I was wondering if you could comment on capacity utilization? What was your capacity utilization in Q4 and where has it been running so far year to date?

Benny Goh - *China Yuchai International - President*

Alex, normally we don't divulge our competitive information, but generally it has been pretty good. We look at the utilization almost similar to Q3 and it's getting to be much better going forward.

Alex Potter - *Piper Jaffray - Analyst*

So directionally would you say that in Q1 your capacity utilization is higher than it was in Q4?

Benny Goh - *China Yuchai International - President*

Yes, that's right. In fact we are looking to a higher utilization this quarter and going forward.

Alex Potter - *Piper Jaffray - Analyst*

Okay. All right, that's helpful. I was wondering also if you could comment on pricing, how pricing has trended? You don't have to be too specific in terms of percentage increases or anything like that but just directionally, up or down for your various different engine segments. So is there pricing pressure or not in heavy-duty, medium-duty, light-duty, etc.?

Benny Goh - *China Yuchai International - President*

If you look at our ASPs, which maybe you compute from our numbers over here, it has been showing an increasing trend. We are growing from quarter to quarter. We have increased our ASPs. In Q4, our ASPs is showing 35.1 versus Q3 which was 31.6. So that's a very healthy sign. And generally our higher ASPs are coming from the fact that the product mix that we are selling, the higher, the better engines as well as the gas engines, those are the ones raking in the better margins.

But by and large, as we have pointed out in the last quarter, the traditional engines are facing a lot of pressure and that is something which we continue to see. And I think going forward, probably in the next two quarters, there will be the same sort of situation that we'll continue to observe over the next few months.

Alex Potter - *Piper Jaffray - Analyst*

Okay. And looking forward into 2013, I guess broadly speaking -- I know this is potentially difficult for you to estimate at this point, but how do you think your mix will compare in 2013 versus 2012, regarding heavy-duty versus medium-duty and light-duty? Where do you think that will trend?

Benny Goh - *China Yuchai International - President*

In 2012 as you can see, our mix was more slanted towards the light-duty engines and that is appropriately so because of the downturn. And in the first two quarters we still see the similar kind of outlook because of the fact that the changeover of government is still barely in place. And we're only looking at Q2 and Q3 before incentives start moving and trickling down. And so by and large, our mix of the light to medium to heavy-duty will potentially remain the same and towards the end of the year, we see an uptick in petrol heavy-duty.

Alex Potter - *Piper Jaffray - Analyst*

Okay, that's very helpful. And then I guess lastly, then I'll jump back in the queue here, I was wondering if you could comment on inventory levels, both of trucks and of excavators or other types of machinery out there at the dealership level. Where do you see that trending? I know that historically you had said that truck inventory has started coming down a little bit. Are you still seeing that same sort of trend? And then a similar question for machinery. Thanks.

Kok Ho Leong - *China Yuchai International - CFO*

For truck inventory, yes, it is a continuing declining trend, thanks to the fact that OEM are slowing down in the production. And distribution channel, we have resumed the orders through the OEMs, so therefore we see that as a very healthy sign.

In terms of machinery, that is still a bit sluggish although the inventories have come down somewhat. So that is still something which we are still watching very carefully.

Alex Potter - *Piper Jaffray - Analyst*

Okay, great. Thanks, guys.

Operator

Thank you very much. Your next question comes from Sandy Mehta from Value Investments. Please ask your question.

Sandy Mehta - *Value Investments - Analyst*

Yes, good evening. Thanks for taking my question. When I looked at the bills receivable balance it was down fractionally about 1% quarter over quarter. It's also down 1% year over year. And some of us, if you look at -- it's about $400m above where it typically has been and I know interest rates have gone up so you have done a lot less factoring than you have normally done. But when do you expect to see the bills receivable balance come down to normal levels and some of this cash that is tied up in that to be released?

And can you also maybe give us some comments on why or how you feel comfortable with the quality of the receivables? Thanks.

Kok Ho Leong - *China Yuchai International - CFO*

Okay. When you look at our accounts, we have to look at the trade and the bill receivables in totality. One of the main features that we are having is we're selling to the large OEM players who would usually give us bank-backed instruments in the form of bill receivables, okay. So as far as we are concerned, if we are able to receive such instrument, it is a good quality payment, good quality instrument in return for the goods that we have delivered to them.

As you asked on the quality of our account receivable, that is the main comforting point that you would be able to see. And you can see also that we sell a lot to our big OEM carmakers and that gives us a color of our accounts receivable or bills receivable that are backed by good customer as well as the bank-backed instruments.

As you talk about the bill receivables, we must always look at GYMCL as a big company. Our annual turnover can be range from RMB13b to RMB15b a year and therefore our loans can range from, if you look at the past history, it can be RMB2.5b to RMB3.5b in this range. And account receivables, the main thing and the bill receivable is the interplay between our financing instruments that we have at that point of time and based on the market rate at that time. So we are not able to conclude with clarity that we will have lesser bill receivable or more bill receivables. And that is really determined by the market forces.

But the comforting factor that I can give to you is by and large, the quality of the account receivables as well as the bills receivable, they are from reputable player in China as well as been backed by bank-backed instruments.

Sandy Mehta - *Value Investments - Analyst*

Okay. Can you perhaps give us a sense of -- interest rates have come down in China. Is there a level of interest rates where you might go back to factoring or discounting the receivables as you have normally done? Is there any sort of visibility or expectation that that might go back to normal levels and then again reduce your overall balance of receivables?

Kok Ho Leong - *China Yuchai International - CFO*

Okay. Maybe I would like to first answer the larger environment of the China money market. There were two rate cuts, one in late June, the other one in the early July, both at 50 basis points. But by and large these two cuts, it does not have a major impact on the big player like us. And thereafter from the cut in July you can see that the interest rate movement in China, there's not much changes. That is the overall market situation that we have seen in 2012.

Moving forward in 2013, we can't see any major trickling factors that will move the interest rates very significantly until the leadership is in place as well as the initiatives they want to go on infrastructure building, because the overall theme in China is still containing the property market.

So if you look at our financing instrument we have as CYI or GYMCL, our main operating units, as we become more mature, we'll continue to have to engage ourselves in the different form of financing instruments. And you can see in 2011 we moved to short-term financing bonds, a total of RMB2.39b. In 2012 we have RMB1b short-term financing bond. And moving forwards we'll continue to explore these instruments.

As you refer to those instruments such as AR factoring and bill discounting, sometimes in these instruments, they have a spike at a certain point of time of the market. So to say for sure that we will avoid factoring or we will not take factoring or we will take factoring is dependent on the market conditions.

So the only quick answer I would give to you is we'll continue to explore bonds and other instruments depending on the market situation at that point of time.

Benny Goh - *China Yuchai International - President*

So by and large, we're still having a mix of both, Sandy. That's the way it will go.

Sandy Mehta - *Value Investments - Analyst*

And just one final question. In terms of the joint ventures, I presume it will be your expectation to start reporting profits here in 2013, at some point in the year? Thank you so much.

Benny Goh - *China Yuchai International - President*

Yes, in certain joint ventures, our remanufacturing joint venture, although it's a startup, we expect that to be breaking even and making even profits over the end of the year.

Sandy Mehta - *Value Investments - Analyst*

Okay, thank you.

Benny Goh - *China Yuchai International - President*

Thanks, Sandy.

Operator

Thank you very much. Your next question comes from David Raso of ISI Group. Please ask your question.

David Raso - *ISI Group - Analyst*

Your comments about first quarter capacity utilization will be better than the calendar fourth quarter, can I interpret that first that orders are up sequentially? And, secondly, if that's the case, how much of that is just seasonal pattern or is it truly a pickup you see at your customers? And then I have a couple of follow ups related to that.

Benny Goh - *China Yuchai International - President*

Hi, David. Yes, actually we do not see a whole lot of pickup at the moment. What we're seeing is two-placed. One is because of the inventory levels having come down somewhat and this is the usual seasonal effect. And we are now only stepping into the second month of the year. What happens is that the first year happens to be a full month compared to the previous year which was a half month because of the Chinese New Year. So that showed a bit of uptake. But I think by and large the utilization for the first quarter is going to be pretty much flat, but then I think our expectation is that Q2 onwards we would see things moving.

David Raso - *ISI Group - Analyst*

And related to the difference between on-highway and off-highway, is there any difference between those two markets on the orders sequentially, or for the second quarter which one are you getting the impression should be the first one to improve?

Benny Goh - *China Yuchai International - President*

Right now we're seeing the on-highway engines as the one basically coming up in Q1. And the off-highway being mostly construction, it's pretty flat right now. Again I reinforce the fact that the changeover of government hasn't fully taken place yet and so we do not see any big incentives although at the central government, they have talked about central planning initiatives. But then it should trickle down to the provincial governments. So until that happens, the construction equipment will still be quite slow in terms of demand and therefore that trickles down to the off-highway demand as well.

David Raso - *ISI Group - Analyst*

And last question, about the on-highway comments, the orders, are they improving a bit in the heavy section of the market or the medium? And maybe a little more color around -- you said they're getting better, but is there already evidence that the second quarter will show a greater acceleration or is it just a hope right now, or is it actually orders starting to really suggest second quarter gets an acceleration?

Benny Goh - *China Yuchai International - President*

Right. David, right now we do not see a whole lot of movement in the heavy duty, because, as I mentioned, people are still on the wait and see. But the movement that we see right now is actually more on the medium-duty and a bit more on the light-duty vehicles. And that's again rightly so because that is still very much the current demand as we've seen over the past quarter.

But in Q2 we don't see that as a hope -- we have a certain expectation because of the demand and a pull from the fact that July we're going to have the National IV regulation in place so there will be some pre-orders taking place. So there we'll see some of this demand for heavy-duty trucks coming in place as well.

David Raso - *ISI Group - Analyst*

That's great. Thank you so much.

Benny Goh - *China Yuchai International - President*

Thanks, David.

Operator

Thank you very much. Your next question comes from Gerwin Ho from Citi. Please ask your question.

Gerwin Ho - *Citi Research - Analyst*

Hi. Good morning, gentlemen. Thank you very much for taking my question. Just three quick questions. First of all, what's our latest outlook for the heavy-duty truck market for 2013 in terms of growth outlook? Last year it was quite tough, down 20%. For this year what type of growth do we think we can achieve, and indirectly when do we think we can go back to positive year-over-year growth? We've heard some industry people talking about second quarter of '13. What's your view on that?

Secondly, can you give us your heavy-duty truck unit sales, engine unit sales for 2012 and 2011?

And thirdly, I think it was just mentioned the China IV emission standard for heavy commercial vehicle, what's your expectation? It seems that you expect that it will be implemented on July 1? Those are the three questions, thank you.

Benny Goh - *China Yuchai International - President*

Hi, Gerwin. Thanks. Okay, let me just address on the last question which is the regulation. We do believe that first of July they will be implemented and so consequently there will be some sort of a pre-buy, as I mentioned to David just now. That will help us in terms of our heavy-duty engines.

Coming back to your first question about what's the outlook for the heavy-duty trucks, well, quite clearly we are just moving out from the woods. If you look at last year, last year I think the whole industry was about 640,000 heavy-duty engines sold. Coming year, because again the first quarter is still on a wait and see mode, second quarter is on pre-buy, we do not expect a whole lot of improvement; probably some uptick to maybe about 700,000. And then eventually over the next two years I think we'll stabilize around 800,000 or more. Again, if the people ask are we going to reach the 1m mark, again I think that would be a much longer duration before we see that kind of demand.

Gerwin Ho - *Citi Research - Analyst*

And in terms of heavy-duty truck engine unit sales in '12 and '11 for Yuchai please?

Benny Goh - *China Yuchai International - President*

I'm sorry we do not divulge that information. What we can say is that our numbers in '12 obviously were smaller than '11 because of the slowdown in the whole heavy-duty market.

Gerwin Ho - *Citi Research - Analyst*

Is there a rough percentage of overall unit sales, can we give that?

Benny Goh - *China Yuchai International - President*

It is still relatively small at the moment?

Gerwin Ho - *Citi Research - Analyst*

So the 20% type of --

Benny Goh - *China Yuchai International - President*

I'm afraid, no, we would not divulge this number.

Gerwin Ho - *Citi Research - Analyst*

Okay, I understand. Thank you very much.

Benny Goh - *China Yuchai International - President*

Thanks, Gerwin.

Operator

Thank you very much. Your next question comes from Andrew Casey of Wells Fargo. Please ask your question.

Andrew Casey - *Wells Fargo - Analyst*

Hello and thanks for taking my questions. A lot of them have been answered, but I wanted to go back to the last few that were surrounding the NS IV emissions regulation change. Could you talk about how you expect that to be implemented post July 1? Is it a phase in or is pretty much a drop dead?

Benny Goh - *China Yuchai International - President*

It's a good question. I think the industry is looking at it being more of a phase-in kind of approach. The reason is that China is going through slowdown last year and they're trying to make sure that things are coming back to normal. And so to have a clear regulation that's going to be policed very strictly, it's going to be very difficult to enforce and at the same time I think there will be a major shakeout in terms of the industry.

We believe that it will be more of a phase out -- phase-in approach but quite definitely the major players, people like Yuchai, we are definitely poised to capture the market for this implementation.

Andrew Casey - *Wells Fargo - Analyst*

Okay, thanks. And then just a follow-up on the pre-buy. Does that suggest 2013 demand, is from an engine perspective, is pretty concentrated in Q2 or is it more spread out, pretty equally Q2, Q3, Q4?

Benny Goh - *China Yuchai International - President*

Again if you look at the past trend, Q1, Q2 has always been a higher sales numbers. So the pre-buy, we believe that the Q2 will be higher than Q1. Q3 traditionally has been a very slow quarter and this year we don't expect it to be any different. In fact it will be pretty slow, especially after the pre-buy has taken place. Then the Q4 we are expecting the fact that there may be incentives coming in at the provincial level stirring demand in construction and so therefore we see hopefully a higher demand in Q4.

Andrew Casey - *Wells Fargo - Analyst*

Okay. Thank you very much.

Benny Goh - *China Yuchai International - President*

Thank you. We're looking at some of the webcast questions here. We've got a question is how many school bus engines were sold in 2012? We believe that it's going to be -- it was about 10,000, although the numbers have not been very clear from the whole industry at this point in time.

The second question over here has been has GYMCL taken over the first place in the marine engine sector in China, having increased its percentage from 15% to 23% last year? I believe, yes, we have done fairly well in the marine sector. In fact one of the areas that we were very proud about is that our marine engines have taken hold in the market. So this is something that we are glad to say.

THOMSON REUTERS

Kok Ho Leong - *China Yuchai International - CFO*

The next question is relating to why are we holding so much cash on the balance sheet? Do we want to pay down the debt or use the money to buy back some of the Company stocks, okay. The big picture is always that it is the interplay of the financing instrument that we have. So there will be a time in our balance sheet that we will be holding more cash because -- and some of the time we are holding less because to go into factoring or bill discounting we are subject to the tenor of the invoice or the bills that we have. So we can't live on these instruments alone. So you can see over the time our loan and the cash money, cash balances will move according to what instrument we use. And if you look at the total size of the Company, we can raise from RMB13b to RMB15b a year. So you look at our loan size of RMB3b, I think it is in a very comfortable range.

As you say the cash that we are having is also about -- around that time, because you must understand that we have to keep sufficient cash for the running of the Company and as well as to meet the ongoing CapEx both for sustaining as well as new projects. So in our view, it is not a hard number that we can tie to, relating to the cash we have, but it's the interplay with all the various instruments that we have.

As for whether we should use such money to buy back our stocks, we do not have any stock buyback or share buyback arrangement at the moment. And this will continue to be the arrangement until there is a change in policy.

Benny Goh - *China Yuchai International - President*

I've got another question here on the web asking about impacts that we see because of -- in light of the air pollution issues in China. To me I think that's a very positive sign. The air pollution issue is a manifestation of the bigger issue in terms of environment and also the green requirement for China. And that has come to greater seriousness because of what we see in Beijing. And that will translate into the demand for higher emission requirements and that is actually very positive for Yuchai.

As you know we are ahead of the curve. We are already -- all our engines are National IV. We already have National V and National VI. So that will help us over the long term in terms of being able to capture the market. We also have the natural gas engines which are also very environmentally friendly and also less emissions as well. So that also has an advantage for someone like Yuchai. So by and large this is very good for our business.

Operator

Thank you very much. You have a question from the line of -- it's a follow up question from Mr. Ravi Gill of Goldman Sachs. Please ask your question.

Benny Goh - *China Yuchai International - President*

Hello, Ravi.

Ravi Gill - *Goldman Sachs - Analyst*

Thanks. Specifically on the natural gas side, my question was on if you can speak to the competitive environment and industry pricing in the fourth quarter as compared to the third quarter? I know Weichai was engaged in some significant price competition. Can you just update us on how that was -- how that fared in the fourth quarter of the year?

Benny Goh - *China Yuchai International - President*

In terms of natural gas, as you know our focus has always been in the bus arena and I think that has been very strong and very good for us. We have captured over 75% share of the bus market. So that overall has given us a very strong advantage. In terms of pricing, natural gas engines continue to be very good in terms of average price and they help us tremendously.

In terms of natural gas in the truck sector, because of the downturn in the truck sector obviously that has impacted everyone, not only our competitors but also ourselves as well. So we do not see as much demand at that point and also the price remains more or less within the price that we see in the market today.

Ravi Gill - *Goldman Sachs - Analyst*

Okay. And then can you update us on I guess the infrastructure build-out for bus and truck in China, did that -- was there any positive elements in the quarter?

Benny Goh - *China Yuchai International - President*

Unfortunately for the gas infrastructure as you know, it's only the main artery, whereas the infrastructure, the branches between cities are still not in -- has not even started at this point in time. I think everyone is waiting for the initiatives from the central government and then after that the provincial governments. So what we are therefore seeing is that in the meantime the main demand will come from buses. And then over time, of course not in the next two to three quarters will we see a huge demand for trucks in the natural gas at this point in time.

Ravi Gill - *Goldman Sachs - Analyst*

Okay, thank you very much.

Benny Goh - *China Yuchai International - President*

Thank you.

Operator

Thank you very much. We have now reached the end of our Q&A session. I will turn the call back to Mr. Goh.

Benny Goh - *China Yuchai International - President*

All right, thank you all for participating in our fourth quarter and full year 2012 earnings call. We look forward to speaking with you again and thank you very much. Goodbye.
