

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 62235 / June 7, 2010

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3139 / June 7, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13925

)	
In the Matter of)	ORDER INSTITUTING CEASE-AND-DESIST
)	PROCEEDINGS PURSUANT TO SECTION
China Yuchai International Limited,)	21C OF THE SECURITIES EXCHANGE ACT
)	OF 1934, MAKING FINDINGS, AND
Respondent.)	IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against China Yuchai International Limited (“China Yuchai” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

1. This matter concerns China Yuchai's violations of the reporting, books and records and internal controls provisions of the securities laws, arising out of China Yuchai's material overstatement of net income for the year ended December 31, 2005. The overstatement was caused by an erroneous material adjusting journal entry made at China Yuchai's majority-owned subsidiary, Guangxi Yuchai Machinery Company Limited ("Guangxi Yuchai"). China Yuchai included the overstated financial results in its annual report for 2005, which it filed with the Commission in August 2006. In 2008, China Yuchai restated its 2005 financial statements, including the reversal of the erroneous adjusting journal entry at the subsidiary.

2. China Yuchai is a Bermuda company headquartered in Singapore. China Yuchai's common stock is registered with the Commission under Section 12(b) of the Exchange Act, and is listed on the New York Stock Exchange. China Yuchai owns 76.4% of Guangxi Yuchai, a Sino-foreign joint stock company, headquartered in Yulin City in the People's Republic of China ("PRC"). Guangxi Yuchai manufactures and distributes diesel engines in the PRC.

3. The erroneous material adjusting journal entry arose as a result of inadequate financial controls at Guangxi Yuchai. Guangxi Yuchai had been consistently profitable between 1998 and 2004. In the second half of 2005, however, Guangxi Yuchai's financial statements began to reflect monthly losses, which worsened as the year progressed. Guangxi Yuchai's management and finance department considered whether technical problems with new accounting software installed earlier that year had overstated the "Goods Received/Invoices Not Received" ("GR/IR") account, because the GR/IR year-end balance had grown significantly over the previous year. The GR/IR account tracks the cost of raw materials delivered to Guangxi Yuchai's warehouse prior to the receipt of invoices from vendors. GR/IR is consolidated with Accounts Payable on Guangxi Yuchai's balance sheet.

4. To investigate the possible error, the Guangxi Yuchai procurement department staff manually counted warehouse receiving documents and called suppliers to discuss shipments and invoices. Using the procurement department data, the finance department staff substantiated a GR/IR account balance of Rmb 400 million, but the accounting software indicated a balance of Rmb 568 million. On January 20, 2006, the finance department input an adjusting entry of Rmb 168 million (equivalent to approximately \$21 million) into the GR/IR account for the period ending December 31, 2005.

5. After the adjusting entry had been made, personnel in the Guangxi Yuchai finance department discovered additional warehouse receipts that had not been included in the January 2006 count. The discovery of the additional warehouse receipts indicated that the adjusting journal entry made in January 2006 was at least partially erroneous. However, no one at

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Guangxi Yuchai informed anyone at China Yuchai of the discovery of the additional receipts or informed the parent company that the adjusting journal entry was at least partially erroneous.

6. On August 8, 2006, China Yuchai filed its 2005 annual report with the Commission on Form 20-F, incorrectly reporting net income of \$8.5 million as a result of the erroneous adjusting journal entry.

7. In June 2007, finance personnel at China Yuchai learned that the January 2006 adjusting journal entry was at least partially erroneous when an accountant in the Guangxi Yuchai finance department proposed a partial reversal of the adjusting entry. China Yuchai's Audit Committee was informed of the issue and hired outside counsel to conduct an internal investigation of the issue.

8. In August 2007, following a preliminary investigation, China Yuchai publicly disclosed that it was conducting an investigation into a possible accounting error and that "Rmb 168 million . . . may have to be reversed."

9. On May 30, 2008, China Yuchai filed an amended Form 20-F which restated its financial results for 2005. In the restatement, China Yuchai reported a net loss for the year of \$4 million instead of the \$8.5 million net income originally reported (a decrease of approximately \$12.5 million). Guangxi Yuchai reversed the entire January 2006 adjusting entry. During the course of finalizing the adjusting entry in the restated financial results for 2005, China Yuchai identified certain other accounting errors not previously known and corrected these other accounting errors in its restated financial results for 2005.

10. China Yuchai has made changes to Guangxi Yuchai's internal controls designed to diminish the likelihood of such problems in the future. These included effecting changes in the personnel in the Guangxi Yuchai finance department, adopting new procedures for posting accounting entries, and training finance personnel in U.S. Generally Accepted Accounting Principles.

11. As a result of the conduct described above, China Yuchai violated Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and annual reports as the Commission may require, and mandate that reports contain such further material information as may be necessary to make the required statements not misleading.

12. China Yuchai's 2005 annual report on Form 20-F, filed on August 8, 2006, materially overstated the company's net income and other financial performance measurements, due to the erroneous adjusting journal entry at China Yuchai's majority-owned subsidiary.

13. As a result of the conduct described above, China Yuchai violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets. As a result of the erroneous material adjustment to the GR/IR account, China Yuchai's books, records, and accounts were materially misstated and did not accurately and fairly reflect the transactions and dispositions of the company's assets.

14. As a result of the conduct described above, China Yuchai violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles. China Yuchai's internal controls were not sufficient to prevent the entry of an erroneous material adjustment to the accounts of its majority-owned subsidiary, or to require the reversal of that adjustment when it became apparent that it was erroneous.

China Yuchai's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent China Yuchai's Offer.

Accordingly, it is hereby ORDERED that, pursuant to Section 21C of the Exchange Act, Respondent China Yuchai cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), on the Respondent and its legal agents.

The attached Order has been sent to the following parties and other persons entitled to notice:

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