



China Yuchai International Limited

# Exploring New Avenues Engines for the Future



# Advancing towards a Greener Future

China Yuchai International Limited is more than an engine manufacturer, it is a driver for green technology and has secured the position of technology leader in China:

- We were the first to launch diesel engines compliant with National IV emission standards;
- We have the ability to produce National V compliant diesel engines;
- We launched our environmental-friendly ISG hybrid technology for diesel engines in 2009 targeting urban buses;
- We are China's leading domestic natural gas/diesel fuel hybrid engine manufacturer meeting the National IV emission standards; and
- We started construction on our new Research & Development Institute, the first research institute in China focused on diesel engine technology, located in the High Tech Development Zone of Nanning, the capital of Guangxi Province.

## Contents

- 01 ChinaYuchai's Core Ideals
- 02 Financial Highlights
- 04 President's Statement
- 08 Corporate Background
- 09 Our China Wide Presence
- 10 Board of Directors
- 12 Directors and Executive Officers of the Company
- 13 Corporate Governance

# China Yuchai's Core Ideals

## Vision

- Develop Green Technology and creating value for all stakeholders.

## Mission

- Use our excellence and leadership to meet customers' power demand.
- Establish CYI as a high performance global corporation.
- Lead in the pursuit of business excellence, responsible corporate citizenship and trusted integrity.
- Create an environment that is a great place to work for our employees.

## 玉柴的核心理念

### 愿景

- 致力绿色环保技术及创造股东财富

### 使命

- 以卓越领先的技术及企业资源满足客户的需求
- 创建高绩效的国际企业
- 打造玉柴成为具有良好社会责任及拥有公众诚信度的卓越企业
- 营造良好的员工工作环境

# Financial Highlights

	2009	2008
	Rmb'000	Rmb'000
Net revenue	13,175,903	10,404,788
Profit attributable to equity holders of the Parent*	628,331	240,036
Earnings per share attributable to ordinary equity holders of the Parent	16.86	6.44
Weighted average number of shares	37,267,673	37,267,673
Total assets	13,305,911	9,967,644
Equity attributable to equity holders of the Parent	4,049,331	3,445,180

\*The term "Parent" as used here refers to China Yuchai

As announced on February 25, 2010, we have changed our financial reporting standards from U.S. GAAP to International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The financial results for FY 2009 and FY 2008 captured herein are reported using IFRS.

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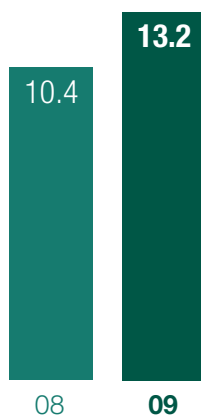
our net revenue grew

# 26.9%

to RMB 13.2 billion  
(US\$1.9 billion)

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**Net Revenue**  
*(in Rmb billions)*



**Profit attributable to equity holders of the Parent**  
*(in Rmb millions)*



**Earnings per share attributable to ordinary equity holders of the Parent**  
*(in Rmb)*



# President's Statement



**Record**

**26.9%** sales increase

**RMB 13.2 billion** revenue in 2009

Dear Shareholders,

After a turbulent but profitable 2008, China Yuchai International Limited demonstrated robust and consistent organic growth in 2009. Our sales increased 26.9% to a record RMB 13.2 billion (US\$ 1.9 billion) as our main operating subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL") sold a record 467,899 units of diesel engines representing a 25.7% rise compared with 2008 resulting in us maintaining our Number 1 ranking in unit sales in the diesel engine market in China.

Higher commercial vehicles sales in 2009 resulted from organic growth as the Chinese economy grew 8.7 percent, aided by the government's stimulus measures, and the evolving emission standards for automotive vehicles which all contributed to demand for new vehicles. We are encouraged by the economic growth in China's interior and smaller cities, which were noticeable contributors to resurging vehicle sales. Higher construction spending to improve China's infrastructure and greater urbanization resulted in the purchase of more trucks and buses.

Our heavy-duty, medium-duty and light-duty engine sales volume rose by 16.0%, 18.2% and 32.4% respectively, compared to last year. Sales to the truck, bus, generators, off-the-road machines, tractor and marine markets all rose in 2009. In the second half of 2009, we successfully optimized our product mix by introducing larger engines

for the heavy-duty market. After concentrating on small engines especially for agricultural use, we re-focused on the heavy-duty sector which significantly improved our overall gross margin in the second half of 2009.

In order to reduce air pollution, the Chinese government is gradually implementing increasingly stringent emission standards. As of July 2008, China has officially implemented the National III emission standards throughout the country. The stricter National IV emission standards which has already been implemented in Beijing in 2008 and Shanghai in 2009, is scheduled for adoption nationwide in late 2010. The Chinese government has offered subsidies to drive sales of new vehicles meeting the National IV emission standards.

We have secured the position of technology leader in China with various projects launched in 2009. We were the first to launch diesel engines compliant with National IV emission standards. We also have the ability to produce National V compliant diesel engines and our environmental-friendly ISG hybrid technology for diesel engines was launched in 2009 targeting urban buses. We are China's leading domestic natural gas/diesel fuel hybrid engine manufacturer meeting the National IV emission standards. In October 2009, we began construction on our new Research & Development Institute located in the High Tech Development Zone of Nanning, the capital of Guangxi Province, to take advantage of our strong research and development team. Our new institute will

continue our legacy of innovation as it is the first research institute in China focused on diesel engine technology. Upon its completion, the Institute will considerably improve our capacity for innovation and raise the overall standards of technology to develop new diesel engines designed to better compete in the global market.

During 2009, we expanded our capacity in several ways. New efficiency methods were implemented at our primary manufacturing facilities at Yulin City, Guangxi Province and our new foundry located near the primary manufacturing facility began partial operations in March, 2010. Phase one of our new diesel engine assembly factory strategically located at Xiamen in a major auto-parts, bus and construction equipment hub, was completed in September 2009 and a total of 10,500 engines were assembled in 2009. We have recently increased its engine assembly capacity by another 50,000 units and we continue to improve our operations to meet demand and achieve greater economies-of-scale.

New joint ventures have been entered into to enhance our product superiority and better penetrate the key passenger vehicle, heavy-duty truck and bus markets as well as remanufacturing services. We have been able to enter into joint ventures with market leaders in each of these market segments as our partnerships were fostered through our technical accomplishments and capabilities as well as our extensive service network.

Our joint venture with Caterpillar China will position us to become the market leader for remanufacturing services in China as our diesel engines and components, and select Caterpillar diesel engine components, will be remanufactured to provide a cost-effective alternative to the production of new engines while improving the environment and saving resources. Caterpillar's remanufacturing expertise is being combined with our high-quality manufacturing facilities and extensive service network. The joint venture company will be located at Suzhou Industrial Park in Jiangsu Province.

The joint venture with CIMC-Chery enhances our presence in the higher-margin, heavy-duty diesel engine business as it focuses on the production of our new YC6K diesel engines for use in trucks of 12 metric tons and above and passenger coaches exceeding 12 meters in length. This partnership allows us to combine resources, develop new manufacturing capabilities and

ensure continuous demand. The intended customers of all the manufactured units are CIMC-Chery and us. In addition, we will also license the joint venture company to manufacture the YC6M and YC6L heavy-duty diesel engines under the "Yuchai" logo and trademark and we will provide after-sales service for all products sold by the company as well as supply certain parts and components to it. Additionally, our joint venture with Geely to develop, manufacture and market light-duty diesel engines for the Chinese passenger vehicle and export markets is progressing well with phase one of engine development meeting the emission and performance requirements completed on schedule. Construction of the engine and component plants in both Jining, Shandong Province, and Sanli, Zhejiang Province, have commenced and the first generation prototype engine will be completed in the third quarter of 2010.

We have also pursued market expansion into international markets and we plan to develop a distribution network to further improve our sales and service capabilities internationally. Although export sales are a small percentage of the total sales, our target is to increase our presence in various key markets so that we can expand our sales revenue geographically in the next few years.

Our accumulated cash position as of December 31, 2009 reached RMB 3.7 billion (US\$ 535.8 million) versus RMB 823.7 million last year, and our trade and bills receivable was RMB 2.5 billion (US\$ 367.2 million), down from a year ago. Our improved receivables management and strengthened relationships with OEMs continued to enhance our balance sheet and we paid a cash dividend of US\$0.25 per ordinary share for FY2009 in March 2010.

We continue to believe in the development potential of the Company as seen in the strategic alliances and developments announced in 2009. In 2010, we look forward to continued progress and further improvements in our operations and as always, aim to build value for all our shareholders.

**Mr. Boo Guan Saw**

President

June 1, 2010



# 总裁致词

亲爱的股东，

经历了风云变幻但又硕果累累的2008年，中国玉柴国际（“玉柴国际”或“公司”）在2009年依然保持强劲的上升发展势头。2009年，我们的销售业绩增长了26.9%，达到132亿人民币（合19亿美金），其中我们的子公司广西玉柴机器股份有限公司（“广西玉柴”）共售出467,899台机器，销量同比去年增长25.7%。此外，我们也再次保持住了在中国柴油发动机市场销量的领先地位。

中国2009年商用车的销售量取得良好的表现，这主要得益于中国经济取得8.7%的持续高速增长，中央政府的激励措施配套以及新制订的排放标准的实施。此外，中国的内陆及中小型城市所取得的良好经济增长也明显刺激了这些地区的汽车销售量的急剧增长。与此同时，中国政府致力于改善基础设施的建设及加强城市化的发展也有助提高卡车和客运巴士的刚性需求。

与2008年同比，公司在重型、中型及轻型的柴油机销量方面分别取得了16.0%，18.2%和32.4%的增长。其他如卡车、巴士、发电发动机、拖拉机和船舶业发动机方面的产品销量在2009年也全面上扬。公司在2009年的下半年通过引进适用于重型柴油机市场需求的更大型发动机，成功的优化了产品的组合。另外，公司将焦点从原有专注的农用小型发动机市场扩伸到重型发动机领域，而这项战略性的转变明显的提高了公司2009年下半年的整体毛利。

另一方面，中国政府基于控制及降低空气污染程度而逐步推广实行更高规格的排放标准。截至2008年7

月，政府已在全国推行国三排放标准，而更加严格的国四排放标准也分别于2008年和2009年在北京和上海两大城市率先执行并将于2010年下半年在全国全面性实行。除此以外，中国政府也通过补贴的方式来鼓励消费者购买符合新国四排放标准的新车。

公司在2009年推出的多个项目让我们持续稳立于中国业界的技术领先地位。我们是同业中第一家推出符合国四排放标准柴油机的企业，并具备制造生产符合国五排放标准发动机的能力。而公司也在2009年推出了针对城市公交车市场富含ISG混合技术含量的环保柴油机产品。我们是中国境内领先生产出符合国四排放标准的天然气燃油混合发动机的制造商。2009年10月，公司开始在广西省会南宁市的高新技术开发区建设一座新的研发中心，以更好的善用现有强大的研发工作团队的专业知识技能，从而使其发挥更加举足轻重的作用。新的研发中心将持续秉承公司对新技术创新的精神，它也是中国国内首个专门针对柴油发动机技术进行研发的中心。在竣工落成后，该研发中心将大大改善我们对新技术创新的能力并提高整体的技术水平，从而研发出能在国际市场中更具竞争力的新柴油发动机。

公司在2009年期间也通过多方面的策略性途径来进一步提高产能。新的一套效益运作模式在我们广西玉林市的制造工厂主要基地率先给予实行。在2010年3月，其毗邻的新铸造中心也开始试行运作。此外，我们另一个位于中国厦门的发动机组装新厂的一期建设工程也已在2009年9月份竣工并在同年完成了10,500台的发动机组装工作。该新厂所在位置极具商业策略性，毗邻主要的汽车部件、公交车和建筑机器设备等产品的集中大商场。厦门组装厂的产能最近得到进一



步的提升，实现可多组装50,000台发动机的产能。我们将继续改善提高运作水平以满足市场需求及取得更好的经济效益。

与此同时，公司也致力建立对外的合作关系并签订了多个新的合资项目以加强产品的优越性及把业务更好的渗透到乘用车、大型卡车和巴士公交车及再制造服务业的主要市场。凭借着良好的声誉，卓越的技术成果和强大的服务网，我们和这些行业的龙头企业建立起紧密的合作关系。

我们对外的合作包括与中国卡特彼勒公司(Caterpillar China)的合资项目。这项合作有助公司成为中国境内的再制造服务领域的先锋企业。该合资公司将对公司的柴油发动机和组合部件及对卡特彼勒的某些选择性的柴油发动机组合部件进行再制造服务，以提供比生产新发动机更具成本效益的替代产品，同时也有助于节约资源及促进环保。合资项目也很好的将卡特彼勒的再制造技术专长结合到我们高质量生产设备及强大的服务网上并形成一种强强融合的合作优势。该合资公司将落户在江苏省苏州工业园区。

另一个合资项目的对象是CIMC-Chery。该项目主要是加强公司在更高利润的重型柴油机市场的业务。合资公司主要是制造生产我们最新及适用于12吨或以上的卡车及12米以上的客运大巴的YC6K柴油发动机。这项合作也将有助于我们资源的整合、开发新的生产能力和确保有持续的需求。合资公司所生产制造的机器将全部供给我们及CIMC-Chery。此外，我们也会正式授权许可合资公司生产我们的YC6M和YC6L重型柴油机并允许产品标示上“玉柴”的商标。我们也将对合资公司所制造生产的产品提供售后服务并负责供应某些产品所需的零部件及组合部件。

另外，我们与浙江吉利控股集团(“Geely”)合作开发、制造和销售适用中国乘用车的轻型柴油发动机的合资项目进展顺利且已如期顺利完成第一阶段的发动机开发工作并通过排放标准和性能的测试。合资公司位于山东济宁和浙江三立的厂房已分别开始建设，而第一代的发动机样机也将在2010年第三季度完成。

公司正在积极拓展国际市场并计划开发更多的经销据点以进一步提高产品的国际销量及加强产品的海外售后服务。尽管现阶段公司产品整体在海外销售方面所占比例不大，但我们的目标是要在主要的市场增加设立更多的销售据点以在未来的几年内逐步提高在区域内的产品销售收益。

截至2009年12月31日，我们的累积现金达到人民币37亿元(合美金5.358亿)。相对的2008年我们的累积现金为人民币8.237亿元。而我们的应收货款和票据是人民币25亿元(合美金3.672亿)，比去年减少。此外，对应收账款的管理改善及加强与原始厂商的关系后，公司的财务收支平衡也持续取得正面的成果。在2010年3月，公司向股东派发以现金普通股每股\$0.25美元计算的股息。

延续2009年因各项策略联盟和发展所取得的成果，我们坚信公司在未来的发展潜力和前景。而2010年，我们乐观展望公司的持续进展并在营运方面取得更大的效益，与此同时，也一如既往的为公司股东谋取更大的回报效益。

苏武源先生

总裁

2010年6月1日

# Corporate Background

China Yuchai International Limited (“CYI” or the “Company”) is a Bermuda holding company established on April 29, 1993. On March 7, 2008, CYI registered its Singapore office to allow a closer base of operations to its Asian stakeholders.

CYI boasts an international business reach – as a subsidiary of Singapore-based Hong Leong Asia Ltd (“Hong Leong Asia”), it is listed on the New York Stock Exchange, with major operations in China.

The Group’s principal operating subsidiary Guangxi Yuchai Machinery Company Limited (“GYMCL”) is one of the largest medium-duty diesel engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL produces and provides a comprehensive range of products from light-duty diesel engines to heavy-duty diesel engines, parts and diesel-powered generators to meet the needs of different sectors. GYMCL has built a strong reputation among vehicle manufacturers and customers for the performance and reliability of its products as well as its after-sales customer service.

In February 2005, the Board of Directors of CYI announced its approval of the implementation of a

## 公司背景

中国玉柴国际有限公司（“玉柴国际”或“本公司”）于1993年4月29日在百慕大注册成立。2008年3月7日，玉柴国际在新加坡登记成立分公司，使得其运营基地更为接近亚洲的市场及客户。

玉柴国际拥有国际化商业愿景，是丰隆亚洲有限公司（“丰隆亚洲”）的附属公司，并在纽约证券交易所上市，其主要运营地区和业务范围分布在中国。

广西玉柴机器股份有限公司（“广西玉柴”）是玉柴国际旗下的主要子公司，它也是中国最大的中型柴油发动机的制造商之一。广西玉柴位于中国南部广西壮族自治区的玉林市，公司生产制造及提供从轻型柴油发动机，重型柴油发动机，到零部件和柴油驱动引擎等等相当全面的多样化机型类型产品来满足不同细分市场的需求。广西玉柴以其产品高效可靠的性能和卓越的售后服务在汽车制造商和消费者当中享有极高的声誉。

在2005年2月，玉柴国际的董事会宣布批准公司实施商业扩展和多元化发展战略。玉柴国际因此分别收购了

business expansion and diversification plan. As a result, CYI acquired interests in Thakral Corporation Ltd (“TCL”) and HL Global Enterprises Limited (“HLGE”). Currently we hold 34.4% and 46.4% interests in the outstanding ordinary shares of TCL and HLGE, respectively.

The TCL group is a distributor of consumer electronics products with operations mainly in the People’s Republic of China (including Hong Kong). TCL also has other business activities relating to contract manufacturing, property development and investment in the PRC. On December 1, 2009, TCL’s Board of Directors announced a capital reduction and cash distribution exercise subject to receipt of approvals from its shareholders and the regulatory and legal authorities in Singapore. Concurrently with the capital reduction exercise, CYI announced its intention to sell 21% of its total shareholding in TCL through a placement exercise. Upon the completion of the capital reduction and cash distribution exercise and subject to all the shares in the placement exercise being sold, CYI’s shareholding interest in TCL will be reduced from 34.4% to 13.4%.

The core businesses of HLGE are hospitality operations and property development. TCL and HLGE are listed on the Main Board of the Singapore Exchange Securities Trading Limited.


Thakral Corporation Ltd (“TCL”)和 HL Global Enterprises Limited (“HLGE”)的股权。目前，玉柴国际分别持有TCL的34.4%和HLGE的46.4%股权。

TCL集团是著名的电子消费产品经销商，其商业运营主要分布于包括香港在内的中国地区。除了电子消费品，TCL在中国还涉足合约制造服务，房地产开发及投资等其它类型的业务。在2009年12月1日，TCL的董事会公布公司将进行减资并将所得以现金分配回归股东的消息。该行动的前提是须取得公司股东及新加坡有关的法定管制部门及法院的批示批准。与此同时，玉柴国际也公布有意把其在TCL所持有的总股权中的21%的股权通过私募的方式脱售。在完成上述的减资行动及脱售所有私募的股权后，玉柴国际在TCL的持有股权则将由现有的34.4%下降到13.4%。

HLGE的核心业务是酒店经营与房地产开发。TCL和HLGE均在新加坡证券交易所主板上市。

# Our China-Wide Presence



 Guangxi Yuchai Machinery Company Limited  
公司总部

 Regional Sales Offices  
玉柴办事处

 Customer Service Stations  
玉柴技术服务站

# Directors and Executive Officers of the Company

Our Articles of Association require that our Board of Directors shall consist of eleven members so long as the Special Share is outstanding. There are currently eleven members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the Special Share, Hong Leong Asia has designated Messrs. Saw Boo Guan, Teo Tong Kooi, Gan Khai Choon, Kwek Leng Peck and Tan Eng Kwee as its nominees. Messrs Zhang Shiyong and Han Yiyong are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

Our directors and executive officers are identified below.

## Board of Directors

Name	Position	Year First Elected or Appointed Director or Officer
SAW Boo Guan <sup>(1)</sup>	President and Director	2009
TEO Tong Kooi <sup>(1)(2)(5)</sup>	Director	2004
GAN Khai Choon <sup>(1)(5)</sup>	Director	1995
KWEK Leng Peck <sup>(1)(3)</sup>	Director	1994
TAN Eng Kwee	Director	2010
NEO Poh Kiat <sup>(1)(3)(4)</sup>	Director	2005
TAN Aik-Leang <sup>(1)(4)</sup>	Director	2005
Matthew RICHARDS <sup>(3)(4)</sup>	Director	2006
CHING Yew Chye	Director	2010
HAN Yi Yong*	Director	2010
ZHANG Shi Yong <sup>(1)</sup>	Director	2007

## Management Team

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming <sup>(6)</sup>	Chief Financial Officer	2008
FOO Shing Mei Deborah	General Counsel	2007
Ira Stuart OUTERBRIDGE III	Secretary	2001

\* Mr. Han was appointed a director on May 7, 2010 to replace Mr. Yan Ping who resigned as a director on May 7, 2010.

<sup>(1)</sup> Also a Director of GYMCL.

<sup>(2)</sup> Also a Director of TCL.

<sup>(3)</sup> Member of the Compensation Committee.

<sup>(4)</sup> Member of the Audit Committee.

<sup>(5)</sup> Also a Director of HLGE.

<sup>(6)</sup> Also a Director of GYMCL as well as alternate Director to Mr. Teo Tong Kooi in TCL.

# Board of Directors

**Mr. Saw Boo Guan** was appointed a Director of the Company on July 1, 2009 and assumed the role of President from Mr. Teo Tong Kooi on August 1, 2009. He has extensive experience in the automotive industry and his last position from 2005 to 2008 was as President of Cummins Westport Inc., a joint venture company between Cummins, Inc. and Westport Innovations, Inc., a position based in Vancouver, Canada. From 1989 to 2005, Mr. Saw held various positions in a number of Cummins entities in the U.S., Singapore, Hong Kong and China and his responsibilities included general management, marketing and distribution management for various Cummins entities in the U.S., Singapore, Hong Kong and China. Mr. Saw is a Malaysian Federal Government Scholar and received a Master's degree in Public and Private Management from Yale University, U.S. in 1986 and a Bachelor of Engineering (Hons) in Mechanical Engineering from the University of Malaya, Malaysia in 1979.

**Mr. Teo Tong Kooi** is the Chief Executive Officer and a Director of Hong Leong Asia. He was President of the Company from 2005-2009. He is also the Chairman of Henan Xinfei Electric Ltd., China's leading fridge and freezer maker, Vice-Chairman and Executive Director of Tasek Corporation Berhad, Malaysia, a manufacturer of cement and concrete products and listed on the Kuala Lumpur Stock Exchange. Mr. Teo is also a Director of HLGE, TCL and Isyoda Corporation Berhad, Malaysia. Mr. Teo holds a Bachelor of Science degree in Marketing Management and a Master of Business Administration (both from Golden Gate University, San Francisco, California USA). He has also completed the Executive Management Program at the Stanford University Graduate School of Business and has a wealth of corporate and commercial banking experience with many years in senior management positions where he was Head of Corporate Banking, Deutsche Bank, Malaysia, and Chief Operating Officer of Hong Leong Bank Berhad, Malaysia.

**Mr. Gan Khai Choon** is a Director of the Company, GYMCL, Grace Star, Venture Lewis, Venture Delta and Safety Godown Company Limited. He is also the Chairman of HLGE, an Executive Director of City e-Solutions Limited and Managing Director of Hong Leong International (Hong Kong) Limited. He has extensive experience in the banking, real estate investment and development sectors and has been involved in a number of international projects for the Hong Leong group of companies, which include the management and development of the Grand Hyatt Taipei and the Beijing Riviera. He holds a Bachelor of Arts degree (Honors) in Economics from the University of Malaya. Mr. Gan is related to Mr. Kwek Leng Peck.

**Mr. Kwek Leng Peck** is a Director of the Company. He is a member of the Kwek family which controls the Hong Leong Investment Holdings group of companies. He serves as an Executive Director of Hong Leong Asia and is the non-executive Chairman of Tasek Corporation Berhad. He also sits on the boards of HL Technology, Hong Leong China, GYMCL, City Developments Limited, Hong Leong Finance Limited and Millennium & Copthorne Hotels plc. He holds a Diploma in Accountancy and has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

**Mr. Tan Eng Kwee** was appointed a Director of the Company on February 2, 2010. He is currently the Chief Financial Officer of Hong Leong Asia Ltd. Mr. Tan has more than 20 years of corporate, accounting and financial experience. He has worked in various capacities in financial management with Scomi Group Berhad, ABN Amro Bank, Insurance Corporation of Singapore Ltd., CS First Boston and Esso Singapore Pte Ltd. Mr. Tan holds a Bachelor of Accountancy degree from the University of Singapore and received an MBA from the Cranfield School of Management, UK. Mr. Tan is also a fellow member of the Chartered Association of Certified Accounts (UK) and an associate member of the Institute of Chartered Secretaries & Administrators (UK).

**Mr. Neo Poh Kiat** is a Director of the Company and GYMCL. He is Managing Director of Octagon Advisors (Shanghai) Co. Ltd. and a managing director of Octagon Advisors Pte. Ltd., a financial advisory firm in Singapore. Between 1976 and January 2005, he held senior managerial positions with companies in the Development Bank of Singapore group and United Overseas Bank Ltd, including as Country Officer (China), Head — Corporate Banking (Greater China) at United Overseas Bank Ltd. Mr. Neo is currently a director of Sing-Han Management Consulting (Shanghai) Limited and Asia Airfreight Terminal Co Ltd. He holds a Bachelor of Commerce degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

**Mr. Tan Aik-Leang** is a Director of the Company and GYMCL. He had held various senior executive and managerial positions for a total of over 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan is currently also a Director of the Risk Management Association, Hong Kong Chapter. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants,



## Board of Directors

CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

**Mr. Matthew Richards** is a Director of the Company. Mr. Richards is the General Counsel of Quvat Management Pte. Ltd., which is the investment manager to the Quvat Capital Partners private equity funds. Previously, Mr. Richards was in private practice in Singapore as an international lawyer between 1999 and 2007, having worked on a variety of capital markets, mergers and acquisitions and other corporate finance transactions throughout the Asian region, particularly in Indonesia and India. From 2003 to mid 2006, Mr. Richards was an attorney at Latham & Watkins LLP, the international law firm advising the Company on certain US law matters. Mr. Richards holds a Graduate Diploma in Legal Practice, Bachelor of Laws and Bachelor of Asian Studies from the Australian National University. Our Board of Directors has determined that Mr. Richards is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with Mr. Richards.

**Mr. Ching Yew Chye** was appointed as an independent director of the Company on February 2, 2010. Currently, he is also an independent non-executive director of HSBC Bank Malaysia Bhd and Avenue Invest Bhd. Mr. Ching is also a member of the advisory board of Yorkville Advisors HK Ltd. Mr. Ching joined a global management and technology consulting firm, Accenture in 1982 and during his career with Accenture, Mr. Ching worked primarily with clients in the financial services industry in ASEAN, his assignment then included strategic information planning, design and implementation of major IT system, and bank reorganization arising from mergers. Until his retirement in 2007, Mr. Ching assumed various regional senior management roles at Accenture, including Managing Partner of the Financial Services Industry Group (Asia), Geographic Council Chairman (Asia) and Managing Partner for South Asia Region. Mr Ching graduated with a BSc (Hons) from the University of London in 1976.

**Mr. Han Yi Yong** was appointed a Director of the Company on May 7, 2010 and is currently the Chief Executive Officer, Chairman and a director of Coomber Investments Limited as well as company secretary to GYMCL's Board of Directors. He holds a Bachelor's degree in Vehicle Engineering from the Shandong University of Technology and a Master's degree in Power Machinery and Engineering from Guangxi University.

**Mr. Zhang Shi Yong** is a Director of the Company and GYMCL. He also sits on the boards of the State Holding Company, Coomber and Goldman. Mr. Zhang was a director of City Construction Investment Company of Yulin. He holds a Bachelor of Traffic and Transportation degree from Xinan Jiaotong University and a Master of Business Administration degree from the Tsing Hua University.

**Mr. Hoh Weng Ming** was appointed Chief Financial Officer of the Company with effect from May 1, 2008. He is also a Director of GYMCL with effect from December 26, 2008. Prior to re-joining the Company, Mr. Hoh was the Group Controller of the Industrial Product Group division for Hong Kong-listed, Johnson Electric Industrial Manufactory Limited, a leading industrial electric motor producer. Before Johnson Electric, he was the Financial Controller for two of Hong Leong Asia's subsidiaries, namely Henan Xinfei Electric Co., Ltd. from 2003 to 2005 and the Company from 2002 to 2003. Mr. Hoh has a Bachelor of Commerce degree majoring in Accountancy from the University of Canterbury, Christchurch, New Zealand and an M.B.A. degree from Massey University, New Zealand. He is a Chartered Accountant in New Zealand and Malaysia and a Fellow Member of the Hong Kong Institute of Certified Public Accountants.

**Ms. Foo Shing Mei Deborah** was appointed General Counsel of the Company with effect from December 10, 2007. Ms. Foo has more than 10 years' of commercial and corporate experience gained from various in-house positions in Singapore and Hong Kong. Prior to joining the Company, she held the positions of Vice President of Group Legal and Company Secretary at Nasdaq listed Pacific Internet Limited. She holds a BA (Hons) in Law and History from the University of Keele, UK and a Masters of Law degree in Commercial and Corporate law from the University of London, UK. She is a Barrister-at-Law (Middle Temple) and is admitted as an Advocate and Solicitor in Singapore.

**Mr. Ira Stuart Outerbridge III** is the Secretary of the Company. He is a graduate of the University of North Carolina at Chapel Hill and is a Fellow of the Institute of Chartered Secretaries and Administrators. He joined Codan Services Limited, the Company's secretarial agent in Bermuda, as a Corporate Manager in February 1996.

# Corporate Governance

We are an exempt company incorporated in Bermuda and are subject to the laws of that jurisdiction. The legal framework in Bermuda which applies to exempted companies is flexible and allows an exempted company to comply with the corporate governance regime of the relevant jurisdiction in which the company operates or applicable listing standards. Under Bermuda law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and to exercise their powers and fulfill the duties of their office honestly. In addition, the Bermuda company legislation imposes a duty on directors and officers of an exempted company to act honestly and in good faith with a view to the best interests of the company and requires them to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Bermuda legislation also imposes certain specific duties and obligations on companies and directors, both directly and indirectly, including duties and obligations with respect to matters such as (a) loans to directors and related persons; and (b) limits on indemnities for directors and officers. Bermuda law does not impose specific obligations in respect of corporate governance, such as those prescribed by NYSE listing standards, requiring a company to (i) appoint independent directors to their boards, (ii) hold regular meetings of non-management directors; (iii) establish audit, nominating and governance or compensation committees; (iv) have shareholders approve equity compensation plans; (v) adopt corporate governance guidelines; or (vi) adopt a code of business conduct and ethics.

We are also subject to the NYSE listing standards, although, because we are a foreign private issuer, those standards are considerably different from those applied to US companies. Under the NYSE rules, we need only (i) establish an independent audit committee that has specified responsibilities as described in the following table; (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules; (iii) provide periodic written affirmations to the NYSE with respect to our corporate governance practices; and (iv) provide a brief description of significant differences between our corporate governance practices and those followed by US companies.

The following table compares the Company's principal corporate governance practices, which are in compliance with Bermuda law, to those required of US companies.



## Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<p><b>Director Independence</b></p> <ul style="list-style-type: none"> <li>A majority of the board must consist of independent directors.</li> </ul>	<ul style="list-style-type: none"> <li>Four of our eleven directors, Messrs. Neo Poh Kiat, Tan Aik-Leang, Matthew Richards and Ching Yew Chye are independent within the meaning of the NYSE standards.</li> </ul>
<ul style="list-style-type: none"> <li>Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over \$120,000 per year in direct compensation from the listed company are not independent.</li> </ul> <p>Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.</p>	
<ul style="list-style-type: none"> <li>The non-management directors of each company must meet at regularly scheduled executive sessions without management.</li> </ul>	<ul style="list-style-type: none"> <li>Our non-management directors do not meet periodically without management directors.</li> </ul>
<p><b>Audit Committee</b></p>	
<ul style="list-style-type: none"> <li>Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee meets the requirements of Rule 10A-3 under the Exchange Act.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee currently consists of three members, each of whom meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee must have a written charter that addresses the committee's purpose and responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of US companies.</li> </ul>

<b>Standard for US Domestic Listed Companies</b>	<b>China Yuchai International Limited's Practice</b>
<ul style="list-style-type: none"> <li>At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.</li> </ul>	
<ul style="list-style-type: none"> <li>The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.</li> </ul>	
<ul style="list-style-type: none"> <li>Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.</li> </ul>	<ul style="list-style-type: none"> <li>The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.</li> </ul>
<ul style="list-style-type: none"> <li>Each listed company must have an internal audit function.</li> </ul>	<ul style="list-style-type: none"> <li>We are a holding company and the majority of business is done at our main subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL"). Our group transactions, fees and expenses are reviewed by the Internal Audit Department of Hong Leong Asia. In addition, GYMCL maintains an independent internal audit function, headed by an internal audit manager who reports to the Audit Committee of GYMCL's Board which approves the audit plans, reviews significant audit issues and monitors corrective actions taken by management.</li> </ul>
<b>Compensation Committee</b>	
<ul style="list-style-type: none"> <li>Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.</li> </ul>

## Corporate Governance

<b>Standard for US Domestic Listed Companies</b>	<b>China Yuchai International Limited's Practice</b>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities.</li> </ul>	
<ul style="list-style-type: none"> <li>These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.</li> </ul>
<b>Nominating/Corporate Governance Committee</b>	
<ul style="list-style-type: none"> <li>Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.</li> </ul>	<ul style="list-style-type: none"> <li>We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.</li> </ul>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.</li> </ul>	
<b>Equity-Compensation Plans</b>	
<ul style="list-style-type: none"> <li>Shareholders must be given the opportunity to vote on all equity- compensation plans and material revisions thereto, with limited exceptions.</li> </ul>	<ul style="list-style-type: none"> <li>We intend to have our shareholders approve equity-compensation plans.</li> </ul>
<b>Corporate Governance Guidelines</b>	
<ul style="list-style-type: none"> <li>Listed companies must adopt and disclose corporate governance guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.</li> </ul>
<b>Code of Business Conduct and Ethics</b>	
<ul style="list-style-type: none"> <li>All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.</li> </ul>	<ul style="list-style-type: none"> <li>We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. The text of the Code is posted on our internet website at <a href="http://www.cyilimited.com/invest_g_ovt.asp">http://www.cyilimited.com/invest_g_ovt.asp</a>. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.</li> </ul>

## Financial Report

- 18 Report of Independent Registered Public Accounting Firm
- 20 Consolidated Income Statements
- 21 Consolidated Statements of Comprehensive Income
- 22 Consolidated Statements of Financial Position
- 24 Consolidated Statements of Changes in Equity
- 26 Consolidated Statements of Cash Flows
- 28 Notes to the Consolidated Financial Statements

# Report of Independent Registered Public Accounting Firm

## The Board of Directors and Shareholders of China Yuchai International Limited

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). China Yuchai International Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the company's financial statement closing process.

The material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2009 financial statements and this report does not affect our report dated April 30, 2010 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, China Yuchai International Limited has not maintained effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

/s/ Ernst & Young LLP  
Singapore  
April 30, 2010

# Report of Independent Registered Public Accounting Firm

## The Board of Directors and Shareholders of China Yuchai International Limited

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited and subsidiaries (the “Group”) as of December 31, 2008 and 2009, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and statements of cash flows for each of the two years in the period ended December 31, 2009, and the opening IFRS balance sheet at January 1, 2008. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited and subsidiaries as of January 1, 2008, December 31, 2008 and December 31, 2009, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited’s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 30, 2010, expressed an adverse opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Ernst & Young LLP  
Singapore  
April 30, 2010

# Consolidated Income Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Note	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Continuing operations</b>				
Sales of goods	9	10,358,124	13,139,578	1,924,733
Rendering of services	9	46,664	36,325	5,321
<b>Revenue</b>	9	10,404,788	13,175,903	1,930,054
Cost of sales (goods)	10.1	(8,328,058)	(10,612,260)	(1,554,522)
Cost of sales (services)	10.1	(27,594)	(17,825)	(2,611)
<b>Gross profit</b>		2,049,136	2,545,818	372,921
Other income	10.2	19,460	77,555	11,361
Research and development costs	10.1, 10.3	(184,794)	(297,259)	(43,544)
Selling, distribution and administrative costs	10.1	(1,268,060)	(1,471,857)	(215,603)
<b>Operating profit</b>		615,742	854,257	125,135
Finance costs	10.4	(150,409)	(77,493)	(11,352)
Share of profit of an associate	7	2,717	2,954	433
Share of results of joint ventures	8	13,692	(16,000)	(2,344)
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	31	—	202,950	29,729
<b>Profit before tax from continuing operations</b>		481,742	966,668	141,601
Income tax expense	11	(110,526)	(147,223)	(21,565)
<b>Profit for the year from continuing operations</b>		371,216	819,445	120,036
<b>Discontinued operations</b>				
(Loss)/Profit after tax for the year from discontinued operations	12	(33,985)	13,022	1,907
<b>Profit for the year</b>		337,231	832,467	121,943
<b>Attributable to: —</b>				
Equity Holders of the Parent		240,036	628,331	92,040
Minority interest		97,195	204,136	29,903
		337,231	832,467	121,943
<b>Earnings per share</b>				
	13			
For profit from continuing operations:				
— basic, profit for the year attributable to ordinary equity holders of the Parent		7.35	16.51	2.42
— diluted, profit for the year attributable to ordinary equity holders of the Parent		7.35	16.51	2.42
For profit for the year:				
— basic, profit for the year attributable to ordinary equity holders of the Parent		6.44	16.86	2.47
— diluted, profit for the year attributable to ordinary equity holders of the Parent		6.44	16.86	2.47
Weighted average number of shares				
— Basic		37,267,673	37,267,673	37,267,673
— Diluted		37,267,673	37,267,673	37,267,673



# Consolidated Statements of Comprehensive Income

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Note	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Profit for the year</b>		337,231	832,467	121,943
<b>Other comprehensive (loss)/income</b>				
Foreign currency translation		10,343	(11,201)	(1,641)
Share of other comprehensive (loss)/income of associates		(90,265)	21,038	3,082
Others		4,740	(647)	(95)
Other comprehensive (loss)/income for the year, net of tax		(75,182)	9,190	1,346
<b>Total comprehensive income for the year, net of tax</b>		262,049	841,657	123,289
Attributable to:				
Equity holders of the Parent		151,984	640,908	93,883
Minority interest		110,065	200,749	29,406
		262,049	841,657	123,289

# Consolidated Statements of Financial Position

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Note	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	14	2,662,370	2,719,773	3,146,206	460,867
Investment properties	15	39,137	34,146	33,852	4,959
Prepaid operating leases	16	162,235	159,156	355,931	52,138
Goodwill	17	218,311	212,636	212,636	31,148
Investment in associates	7	452,767	328,600	39,644	5,807
Investment in joint ventures	8	160,125	164,979	196,988	28,856
Other receivables	18	65,223	61,475	72,183	10,574
Deferred tax asset	11	147,860	145,233	241,718	35,408
Other investments		7,007	6,765	6,761	990
		3,915,035	3,832,763	4,305,919	630,747
<b>Current assets</b>					
Inventories	21	1,647,075	2,250,044	2,130,026	312,014
Trade and bills receivables	23	3,109,244	2,538,135	2,506,701	367,191
Prepayments		54,057	150,581	97,092	14,222
Other receivables	24	203,290	223,686	181,550	26,594
Income tax recoverable		27,990	46,296	6,680	979
Prepaid operating leases	16	5,767	6,151	7,273	1,065
Other current financial assets	22	110,344	96,293	91,202	13,360
Cash and cash equivalents	25	759,837	823,695	3,657,981	535,834
		5,917,604	6,134,881	8,678,505	1,271,259
Assets classified as held for sale	12	—	—	321,487	47,092
		5,917,604	6,134,881	8,999,992	1,318,351
		9,832,639	9,967,644	13,305,911	1,949,098
<b>Total assets</b>					
<b>Equity and liabilities</b>					
<b>Equity attributable to equity holders of the Parent</b>					
Issued capital	26	1,724,196	1,724,196	1,724,196	252,567
Preference shares	26	36	36	36	5
Statutory reserves	28	270,339	287,473	291,686	42,727
Capital reserves		3,297	2,942	2,942	431
Retained earnings		1,314,591	1,527,006	2,125,059	311,287
Reserve of asset classified as held for sale		—	—	(9,661)	(1,416)
Other components of equity		(8,418)	(96,473)	(84,927)	(12,440)
		3,304,041	3,445,180	4,049,331	593,161
Minority interests		1,035,833	1,169,779	1,360,459	199,285
<b>Total equity</b>		4,339,874	4,614,959	5,409,790	792,446

# Consolidated Statements of Financial Position

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Note	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	19	313,102	176,756	625,256	91,590
Other liabilities	19	2,296	2,080	26,877	3,937
Deferred tax liability	11	466	16,158	31,840	4,664
Deferred grants	20	—	—	176,035	25,786
		315,864	194,994	860,008	125,977
<b>Current liabilities</b>					
Trade and other payables	29	3,693,444	3,604,128	6,190,246	906,770
Interest-bearing loans and borrowings	19	1,276,951	1,148,732	453,792	66,473
Provision for taxation		11,603	13,277	122,308	17,916
Other liabilities	19	5	5	10,233	1,499
Provision for product warranty	30	194,898	188,599	259,534	38,017
Deferred gain	31	—	202,950	—	—
		5,176,901	5,157,691	7,036,113	1,030,675
Total liabilities		5,492,765	5,352,685	7,896,121	1,156,652
<b>Total equity and liabilities</b>		<b>9,832,639</b>	<b>9,967,644</b>	<b>13,305,911</b>	<b>1,949,098</b>

# Consolidated Statements of Changes in Equity

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Other components of equity										Total equity Rmb'000
	Issued capital (Note 26) Rmb'000	Preference shares (Note 26) Rmb'000	Statutory reserves (Note 28) Rmb'000	Capital reserves Rmb'000	Retained earnings Rmb'000	Foreign currency translation reserve Rmb'000	Revaluation reserve (Note i) Rmb'000	Per-formance shares reserve Rmb'000	Total Rmb'000	Minority interest Rmb'000	
At January 1, 2008	1,724,196	36	270,339	3,297	1,314,591	(65,915)	54,950	2,547	3,304,041	1,035,833	4,339,874
Profit for the year	—	—	—	—	240,036	—	—	—	240,036	97,195	337,231
Other comprehensive income	—	—	—	(355)	358	(9,302)	(78,767)	14	(88,052)	12,870	(75,182)
Total comprehensive income	—	—	—	(355)	240,394	(9,302)	(78,767)	14	151,984	110,065	262,049
Transfer to statutory reserves	—	—	17,134	—	(2,093)	—	—	—	15,041	—	15,041
Dividends paid to minority interests of subsidiaries	—	—	—	—	—	—	—	—	—	(33,473)	(33,473)
Dividends declared (US\$0.10 per share) (Note 27)	—	—	—	—	(25,886)	—	—	—	(25,886)	—	(25,886)
Minority interests arising from incorporation of new subsidiaries	—	—	—	—	—	—	—	—	—	57,354	57,354
At December 31, 2008	1,724,196	36	287,473	2,942	1,527,006	(75,217)	(23,817)	2,561	3,445,180	1,169,779	4,614,959

# Consolidated Statements of Changes in Equity

(Rmb and US\$ amounts expressed in thousands, except per share data)

	Other components of equity										Total equity Rmb'000		
	Issued capital (Note 26) Rmb'000	Preference shares (Note 26) Rmb'000	Statutory reserves (Note 28) Rmb'000	Capital reserves Rmb'000	Retained earnings Rmb'000	Reserve of asset classified as held for sale (Note 12) Rmb'000	Foreign currency translation reserve Rmb'000	Revaluation reserve (Note i) Rmb'000	Per-formance shares reserve Rmb'000	Premium paid for acquisition of minority interest (Note ii) Rmb'000		Minority interest Rmb'000	
At January 1, 2009	1,724,196	36	287,473	2,942	1,527,006	—	(75,217)	(23,817)	2,561	—	3,445,180	1,169,779	4,614,959
Profit for the year	—	—	—	—	628,331	—	—	—	—	—	628,331	204,136	832,467
Other comprehensive income	—	—	—	—	—	—	(10,870)	23,447	—	—	12,577	(3,387)	9,190
Total comprehensive income for the year	—	—	—	—	628,331	—	(10,870)	23,447	—	—	640,908	200,749	841,657
Transfer to statutory reserves	—	—	4,821	—	(4,821)	—	—	—	—	—	—	—	—
Dividends paid to minority interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(27,988)	(27,988)
Dividends declared (US\$0.10 per share) (Note 27)	—	—	—	—	(25,457)	—	—	—	—	—	(25,457)	—	(25,457)
Liquidation of subsidiaries	—	—	(608)	—	—	—	—	—	—	—	(608)	—	(608)
Minority interests arising from increase in share capital of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	37,225	37,225
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	(19,306)	(19,306)
Premium paid on acquisition of minority interests	—	—	—	—	—	—	—	—	—	(10,692)	(10,692)	—	(10,692)
Reserve attributable to asset classified as held for sale	—	—	—	—	—	(9,661)	11,937	370	(2,646)	—	—	—	—
At December 31, 2009	1,724,196	36	291,686	2,942	2,125,059	(9,661)	(74,150)	—	(85)	(10,692)	4,049,331	1,360,459	5,409,790
US\$	252,567	5	42,727	431	311,287	(1,416)	(10,862)	—	(12)	(1,566)	593,161	199,285	792,446

## Note:

- (i) The revaluation reserve arises from the changes in the net fair value of investment in Thakral Corporation Limited (an associate of the Group).
- (ii) In March 2009, the Company acquired an additional 23.08% equity interest in YEGCL from its minority interests for a cash consideration of Rmb 30,000k. As a result of this acquisition, YEGCL became a wholly-owned subsidiary of the Company. On the date of acquisition, the book value of the additional interest acquired was Rmb 19,308k. The difference between the consideration and the book value of the interest acquired of Rmb 10,692k is reflected in equity as premium paid on acquisition of minority interests.

# Consolidated Statements of Cash Flows

(Rmb and US\$ amounts expressed in thousands, except per share data)

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Operating activities</b>			
Profit before tax from continuing operations	481,742	966,668	141,601
Loss before tax from discontinued operations	(33,985)	13,022	1,907
Profit before tax, total	447,757	979,690	143,508
Adjustments for:			
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	—	(202,950)	(29,729)
Allowance for doubtful debts made/(written back) (net)	25,349	(41,162)	(6,029)
Allowance for stock obsolescence	52,747	154,700	22,661
Depreciation of property, plant and equipment and investment properties	265,834	277,332	40,625
Amortization of intangible assets	6,794	7,982	1,169
Dividend income from associates	—	(11,162)	(1,635)
Impairment of property, plant and equipment and prepaid operating leases	69,930	7,785	1,140
Write off of property, plant & equipment	912	5,723	838
Write back of trade and other payables	(869)	(23,649)	(3,464)
Write back of provision for impairment of receivables-Malkn	—	(4,895)	(717)
Impairment of goodwill	5,675	—	—
Share of net (profit)/loss of associates and joint ventures	(16,409)	13,046	1,911
Loss on other investments	153	—	—
Negative goodwill recognized	(12,368)	—	—
Exchange loss on financing activities	3,172	6,543	958
Loss on disposal of property, plant and equipment	3,525	8,618	1,262
Gain on disposal of associates	—	(1,906)	(279)
Tax refund on reinvestment of net foreign dividend	(2,440)	—	—
Finance costs	150,409	77,493	11,352
Interest income	(15,228)	(31,576)	(4,625)
Loss/(profit) from discontinued operations	33,985	(13,022)	(1,907)
<b>Changes in working capital</b>			
Increase in inventories	(653,827)	(49,006)	(7,179)
Decrease in trade and other receivables	338,716	290,601	42,568
Increase in trade and other payables	3,064	2,565,933	375,867
Decrease in balances with related corporations	89,591	24,953	3,655
(Increase)/decrease in balances with holding company	(3,577)	2,022	296
Decrease in development properties	4,816	5,393	790
Income taxes paid	(100,531)	(79,128)	(11,590)
<b>Net cash flows from operating activities</b>	697,180	3,969,358	581,446

# Consolidated Statements of Cash Flows

(Rmb and US\$ amounts expressed in thousands, except per share data)

	31.12.2008 Rmb\$'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Investing activities</b>			
Acquisition/additional investment in subsidiaries, net of cash acquired	(11,624)	—	—
Acquisition/additional investment in associates & joint ventures	(1,069)	(69,400)	(10,166)
Dividends received from associates	—	16,931	2,480
Dividends received from joint ventures	10,476	19,122	2,801
Interest received	88,487	31,578	4,625
Purchase of other investments	—	(82)	(12)
Payment for prepaid operating leases	—	(205,879)	(30,157)
Proceeds from sale of property, plant and equipment	37,789	64,745	9,484
Purchase of property, plant and equipment and construction in progress (includes interest capitalized)	(376,440)	(780,836)	(114,380)
Tax refund on reinvestment of net foreign dividend	2,440	—	—
Proceeds from disposal of associates	—	1,906	279
Acquisition of a minority interests	—	(29,998)	(4,394)
Proceeds from redemption of preference shares in an associated company	—	551	81
Proceeds from government grants	31,514	150,917	22,107
<b>Net cash flows used in investing activities</b>	<b>(218,427)</b>	<b>(800,445)</b>	<b>(117,252)</b>
<b>Financing activities</b>			
Dividends paid to minority interests	(33,473)	(27,988)	(4,100)
Dividends paid to equity holders of the parent	(25,886)	(25,457)	(3,729)
Interest paid	(194,579)	(93,433)	(13,686)
Payment of finance lease liabilities	—	(5,014)	(735)
Proceeds from borrowings	1,093,528	998,402	146,250
Repayment of borrowings	(1,287,397)	(1,256,441)	(184,048)
Capital contributions from minority interests	49,231	37,225	5,453
Fixed deposits pledged with banks for banking facilities	5	(19)	(3)
Redemption of preference shares	—	—	—
Proceeds from sale and leaseback arrangement	—	40,000	5,859
<b>Net cash flows used in financing activities</b>	<b>(398,571)</b>	<b>(332,725)</b>	<b>(48,739)</b>
Net increase in cash and cash equivalents	80,182	2,836,188	415,455
Cash and cash equivalents at 1 January	759,837	823,695	120,658
Effect of exchange rate changes on balances in foreign currencies	(16,324)	(1,902)	(279)
<b>Cash and cash equivalents at 31 December</b>	<b>823,695</b>	<b>3,657,981</b>	<b>535,834</b>

## Significant non-cash investing and financing transactions

On March 31, 2008, offset agreements were entered into by Yuchai to effect the settlement of the Rmb 205 million loans receivable against the liability of Rmb 245.6 million arising from the purchase of 100% equity interest in Yulin Hotel Company with the balance settled through offset of certain trade receivables due from YMCL, the Guarantors and other related parties (see Note 31).

For the years ended December 31, 2008 and December 31, 2009, certain customers settled their debts with trade bills amounting to Rmb 6,803 and Rmb 10,552 respectively. These outstanding trade bills were classified as bills receivables in the financial statements.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 1. Corporate information

The consolidated financial statements of China Yuchai International Limited and its subsidiaries (the “Group”) for the years ended December 31, 2008 and 2009 were authorized for issue in accordance with a resolution of the directors April 30, 2010. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581.

China Yuchai International Limited (the “Company”) was incorporated under the laws of Bermuda on April 29, 1993. The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited (“Yuchai”), a Sino-foreign joint stock company which manufactures, assembles and sells diesel engines in the People’s Republic of China (the “PRC”). The principal markets for Yuchai’s diesel engines are truck manufacturers in the PRC.

The Company owns, through six wholly-owned subsidiaries, 361,420,150 shares or 76.41% of the issued share capital of Yuchai (“Foreign Shares of Yuchai”). Guangxi Yuchai Machinery Group Company Limited (“State Holding Company”), a state-owned enterprise, owns 22.09% of the issued share capital of Yuchai (“State Shares of Yuchai”).

In December 1994, the Company issued a special share (the “Special Share”) at par value of US\$0.10 to Diesel Machinery (BVI) Limited (“DML”), a company controlled by Hong Leong Corporation Limited, now known as Hong Leong (China) Limited (“HLC”). The Special Share entitles its holder to designate the majority of the Company’s Board of Directors (six of eleven). The Special Share is not transferable except to Hong Leong Asia Ltd. (“HLA”), the holding company of HLC, or any of its affiliates. During 2002, DML transferred the Special Share to HL Technology Systems Pte Ltd (“HLT”), a subsidiary of HLC.

Yuchai established three direct subsidiaries, Yuchai Machinery Monopoly Company Limited (“YMMC”), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited (“YAMC”) (previously known Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited) and Yuchai Express Guarantee Co., Ltd (“YEGCL”). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants’ purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2009. As at December 31, 2009, Yuchai held an equity interest of 71.83%, 97.14% and 100.0% respectively in these companies. As at January 1, 2008, December 31, 2008 and 2009, YMMC had direct controlling interests in twenty five, thirty and thirty one subsidiaries respectively, which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC. In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd. This new subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen Fujian province in China.

On April 10, 2007, Yuchai signed a Cooperation Framework Agreement with Zhejiang Geely Holding Group Co., Ltd or Geely and Zhejiang Yilun Machinery Company Limited or Yinlun to consider establishing a proposed company to develop diesel engines for passenger cars in China. Yuchai was to be the largest shareholder followed by Geely as the second largest shareholder. In December 2007, further to the Cooperation Framework Agreement, Yuchai entered into an Equity Joint Venture Agreement with Geely and Yinlun, to form two joint entities in Tiantai, Zhejiang Province and Jining, Shandong Province. The entities will be primarily engaged in the development, production and sales of a proprietary diesel engine and its parts for passenger vehicles. Yuchai will be the controlling shareholder with 52% with Geely and Yinlun holding 30 % and 18 % shareholding respectively in both entities. These two entities have been duly incorporated.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 1. Corporate information (cont'd)

In December 2007, Yuchai purchased a subsidiary, Guangxi Yulin Hotel Company Ltd (“Yulin Hotel Company”).

On December 17, 2009, Yuchai, pursuant to a Framework Agreement entered into with Jirui United Heavy Industry Co., Ltd. (“Jirui United”), a company jointly established by China International Marine Containers Group Ltd (“CIMC”) and Chery Automobile Co., Ltd. (“Chery”) (collectively referred to as “CIMC-Chery”), and Shenzhen City Jiusi Investment Management Co., Ltd (“Jiusi”) incorporated Y & C Engine Co., Ltd. in Wuhu City, Anhui Province (“the JV Company”) to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L including the engines of YC6K series. The registered capital of the JV Company is Rmb 500,000,000. Yuchai and Jirui United each hold 45% in the joint venture with Jiusi holding the remaining 10%.

In March 2005, the Company through Venture Delta Limited or Venture Delta acquired 14.99% of the ordinary shares of Thakral Corporation Ltd (“TCL”). TCL is a company listed on the main board of the Singapore Exchange Securities Trading Limited (the “Singapore Exchange”) and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. Three directors out of eleven directors on the board of TCL are appointed by the Company. Based on the Company’s shareholdings and representation in the board of directors of TCL, management has concluded that the Company has the ability to exercise significant influence over the operating and financial policies of TCL. Consequently, the Company’s consolidated financial statements include the Company’s share of the results of TCL, accounted for under the equity method. The Company acquired an additional 1% of the ordinary shares of TCL in September 2005. As a result of the rights issue of 87,260,288 rights shares on February 16, 2006, the Company’s equity interest in TCL increased to 19.4%. On August 15, 2006, the Company exercised its right to convert all of its 52,933,440 convertible bonds into 529,334,400 new ordinary shares in the capital of TCL. Upon the issue of the new shares, the Company’s interest in TCL has increased to 36.6% of the total issued and outstanding ordinary shares. During the year ended December 31, 2007, the Company did not acquire new shares in TCL. However, as a result of conversion of convertible bonds into new ordinary shares by TCL’s third party bondholders, the Company’s interest in TCL was diluted to 34.4%. On September 2, 2008, Venture Delta transferred 1,000,000 ordinary shares, representing 0.04% interest in TCL to Grace Star Services Ltd (“GSS”).

On December 1, 2009, TCL announced its plan to return surplus capital of approximately S\$130.6 million to shareholders by way of the Capital Reduction Exercise. Concurrently with the Capital Reduction Exercise, VDL and GSS intend to appoint a broker to sell 550,000,000 shares out of their 898,990,352 shares in TCL at a price of S\$0.03 per share on an ex-distribution basis (“Placement”). As of December 1, 2009, from the date that an associate is classified as held for sale, the Group ceased to apply the equity method and the investment in TCL is measured at the lower of the carrying amount and fair value less cost to sell and classified as held-for-sale.

On February 7, 2006, the Company acquired 29.1% of the ordinary shares of HL Global Enterprises Limited (formerly known as HLG Enterprise Limited (“HLGE”). HLGE is a public company listed on the main board of the Singapore Exchange. HLGE is primarily engaged in investment holding, and through its group companies, invests in rental property, hospitality and property developments in Asia. On November 15, 2006, the Company exercised its right to convert all of its 196,201,374 non-redeemable convertible cumulative preference shares (“NCCPS”) into 196,201,374 new ordinary shares in the capital of HLGE. Upon the issue of the new shares, the Company’s equity interest in HLGE has increased to 45.4% of the enlarged total number of ordinary shares in issue.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 1. Corporate information (cont'd)

The Company considers its ability to exercise the potential voting privileges in the RCPS instruments in HLGE when assessing the entity's power to govern the financial and operating policies of HLGE and concluded that the Company has the ability to control HLGE. Consequently, the Company consolidated HLGE with effect from November 15, 2006. During the year ended December 31, 2007, the Company did not acquire new shares in HLGE. However, new ordinary shares were issued by HLGE arising from the third party's conversion of non-redeemable convertible cumulative preference shares, and the Company's interest in HLGE was diluted to 45.4%. With the conversion of 17,300,000 Existing HLGE RCPS B into HLGE ordinary shares on the Mandatory Conversion Date, the Company's shareholding interest in HLGE increased from 45.4% to 46.4% with effect from March 24, 2010 upon receipt of regulatory approval. If all the RCPS were fully converted to ordinary shares, the Company's interest in HLGE would exceed 50%.

As at January 1, 2008 and December 31, 2008, three directors out of seven directors on the board of HLGE were appointed by the Company. Four directors out of eight directors on the board of HLGE were appointed by the Company as at December 31, 2009.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in Renminbi (RMB) and all values in the tables are rounded to the nearest thousand (\$'000) except when otherwise indicated.

#### **Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended December 31, 2008, the Group prepared its financial statements in accordance with generally accepted accounting principles in the United States (US GAAP). These financial statements, for the year ended December 31, 2009, are the first the Group has prepared in accordance with IFRS.

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2009 as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2008, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its US GAAP statement of financial position as at January 1, 2008 and its previously published US GAAP financial statements for the year ended December 31, 2008.

IFRS 1 First -Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain IFRSs effective for December 2009 year ends. The Group has applied the following exemption:

- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2008.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS*

**Consolidated Income Statement for the year ended December 31, 2008**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Amortisation of gains Rmb'000 (Note 2.1.3)	Negative Goodwill Rmb'000 (Note 2.1.2)	Others Rmb'000 (Note 2.1.6)	IFRS Rmb'000
<b>Continuing operations</b>						
Turnover						
Sales of goods	10,384,022	—	—	—	(25,898)	10,358,124
Rendering of services	—	20,766	—	—	25,898	46,664
Cost of sales (goods)	(8,561,520)	—	—	—	233,462	(8,328,058)
Cost of sales (services)	—	(9,676)	—	—	(17,918)	(27,594)
<b>Gross profit</b>	1,822,502	11,090	—	—	215,544	2,049,136
Other income	43,261	(32,161)	—	12,368	(4,008)	19,460
Research and development costs	(177,370)	—	—	—	(7,424)	(184,794)
Selling, distribution and administrative costs	(1,041,225)	(24,009)	—	—	(202,826)	(1,268,060)
<b>Profit from operations</b>	647,168	(45,080)	—	12,368	1,286	615,742
Interest expenses	(146,973)	(2,150)	—	—	(1,286)	(150,409)
Share of results of associates	(36,573)	7,502	(1,348)	(849)	33,985	2,717
Share of results of joint ventures	—	13,692	—	—	—	13,692

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Income Statement for the year ended December 31, 2008 (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Amortisation of gains Rmb'000 (Note 2.1.3)	Negative goodwill Rmb'000 (Note 2.1.2)	Others Rmb'000 (Note 2.1.6)	Reclassifi- cations (Note 2.1.5)	IFRS Rmb'000
<b>Profit from ordinary operations before tax</b>	463,622	(26,036)	(1,348)	11,519	33,985	—	481,742
Income tax expense	(110,531)	5	—	—	—	—	(110,526)
<b>Profit from ordinary operations after tax</b>	353,091	(26,031)	(1,348)	11,519	33,985	—	371,216
<b>Discontinued operations</b>							
Loss after tax for the year from discontinued operations	—	—	—	—	(33,985)	—	(33,985)
Profit after tax for the year	353,091	(26,031)	(1,348)	11,519	—	—	337,231
Minority interest	(100,641)	9,026	—	(5,580)	—	97,195	—
<b>Net income</b>	252,450	(17,005)	(1,348)	5,939	—	97,195	337,231
<b>Other comprehensive (loss)/income</b>							
Foreign currency translation	1,647	8,696	—	—	—	—	10,343
Share of other comprehensive loss of associates	(80,196)	(10,072)	—	—	—	—	(90,265)
Net unrealized loss on investment securities, net of tax	(26,696)	26,696	—	—	—	—	—
Other	—	4,740	—	—	—	—	4,740
Other comprehensive (loss)/income, net of tax	(105,245)	30,060	—	—	—	—	(75,182)
Total comprehensive income for the year, net of tax	147,205	13,055	(1,348)	5,939	—	97,195	262,049

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at January 1, 2008 (date of transition to IFRS)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of gains Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents	520,945	238,892	—	—	—	—	759,837
Trade receivables and bills receivable, net	3,107,785	1,459	—	—	—	—	3,109,244
Amounts due from related parties	143,652	17,373	—	—	—	—	161,025
Loans receivable from a related party, net	2,050	—	—	—	—	—	2,050
Loans to customers	3,361	—	—	—	—	—	3,361
Inventories	1,647,025	50	—	—	—	—	1,647,075
Lease prepayments	—	—	—	—	—	5,767	5,767
Prepayments	31,752	78	—	—	—	22,227	54,057
Other receivables	97,074	(37,993)	—	—	—	(22,227)	36,854
Income tax recoverable	27,990	—	—	—	—	—	27,990
Deferred income taxes	114,361	—	—	—	—	(114,361)	—
Development properties	—	110,344	—	—	—	—	110,344
<b>Total current assets</b>	<b>5,695,995</b>	<b>330,203</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(108,594)</b>	<b>5,917,604</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at January 1, 2008 (date of transition to IFRS) (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of Gains Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Assets</b>							
<b>Non-current assets</b>							
Property, plant and equipment	2,158,246	319,203	—	—	—	—	2,477,449
Construction in progress	184,921	—	—	—	—	—	184,921
Lease prepayments	168,002	—	—	—	—	(5,767)	162,235
Investments in associated corporations	505,009	(75,888)	10,573	13,073	—	—	452,767
Investments in joint ventures	—	160,125	—	—	—	—	160,125
Other investments	615,201	(608,194)	—	—	—	—	7,007
Investment properties	—	39,137	—	—	—	—	39,137
Goodwill	218,311	—	—	—	—	—	218,311
Deferred income taxes	33,499	—	—	—	—	114,361	147,860
Amount due from associate	—	65,223	—	—	—	—	65,223
<b>Total non-current assets</b>	<b>3,883,189</b>	<b>(100,394)</b>	<b>10,573</b>	<b>13,073</b>	<b>—</b>	<b>108,594</b>	<b>3,915,035</b>
<b>TOTAL ASSETS</b>	<b>9,579,184</b>	<b>229,809</b>	<b>10,573</b>	<b>13,073</b>	<b>—</b>	<b>—</b>	<b>9,832,639</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at January 1, 2008 (date of transition to IFRS) (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Liabilities</b>							
<b>Current liabilities</b>							
Short-term bank loans	819,164	—	—	—	457,787	—	1,276,951
Amount due to holding company	380,521	—	—	—	—	—	380,521
Amount due to related parties	5,278	—	—	—	—	—	5,278
Trade payables	2,509,962	7,940	—	—	—	—	2,517,902
Income taxes payable	5,663	5,940	—	—	—	—	11,603
Accrued expenses and other liabilities	946,675	37,966	—	—	—	(194,898)	789,743
Other liabilities	—	5	—	—	—	—	5
Provision for product warranty	—	—	—	—	—	194,898	194,898
<b>Total current liabilities</b>	<b>4,667,263</b>	<b>51,851</b>	<b>—</b>	<b>—</b>	<b>457,787</b>	<b>—</b>	<b>5,176,901</b>
<b>Non-current liabilities</b>							
Long-term liabilities	767,929	2,960	—	—	(457,787)	—	313,102
Other liabilities	—	2,296	—	—	—	—	2,296
Deferred tax liability	—	466	—	—	—	—	466
<b>Total non-current liabilities</b>	<b>767,929</b>	<b>5,722</b>	<b>—</b>	<b>—</b>	<b>(457,787)</b>	<b>—</b>	<b>315,864</b>
<b>TOTAL LIABILITIES</b>	<b>5,435,192</b>	<b>57,573</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,492,765</b>



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at January 1, 2008 (date of transition to IFRS) (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of gains Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Equity attributable to equity holders of the parent</b>							
Issued capital	1,724,196	—	—	—	—	—	1,724,196
Preference shares	—	36	—	—	—	—	36
Statutory reserves	270,339	—	—	—	—	—	270,339
Capital reserves	—	3,297	—	—	—	—	3,297
Retained earnings	1,145,350	145,595	10,573	13,073	—	—	1,314,591
Other components of equity	154,580	(162,998)	—	—	—	—	(8,418)
<b>Equity attributable to equity holders of the parent</b>							
	3,294,465	(14,070)	10,573	13,073	—	—	3,304,041
Minority interests	849,527	186,306	—	—	—	—	1,035,833
<b>Total equity</b>	<b>4,143,992</b>	<b>172,236</b>	<b>10,573</b>	<b>13,073</b>	<b>—</b>	<b>—</b>	<b>4,339,874</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>9,579,184</b>	<b>229,809</b>	<b>10,573</b>	<b>13,073</b>	<b>—</b>	<b>—</b>	<b>9,832,639</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

#### Consolidated Statement of Financial Position as at December 31, 2008

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of gains Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents	693,436	130,259	—	—	—	—	823,695
Trade receivables and bills receivable, net	2,537,681	454	—	—	—	—	2,538,135
Amounts due from related parties	139,267	5,655	—	—	—	—	144,922
Loans to customers	156	—	—	—	—	—	156
Inventories	2,250,030	14	—	—	—	—	2,250,044
Lease prepayments	—	—	—	—	—	6,151	6,151
Prepayments	106,585	903	—	—	—	43,093	150,581
Other receivables	181,699	(59,998)	—	—	—	(43,093)	78,608
Deferred income taxes	125,788	—	—	—	—	(125,788)	—
Income tax recoverable	46,296	—	—	—	—	—	46,296
Development properties	—	96,293	—	—	—	—	96,293
<b>Total current assets</b>	<b>6,080,938</b>	<b>173,580</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(119,637)</b>	<b>6,134,881</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at December 31, 2008 (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of Gains Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Assets</b>							
<b>Non-current assets</b>							
Property, plant and equipment	2,149,290	311,869	5,742	—	—	—	2,466,901
Construction in progress	252,872	—	—	—	—	—	252,872
Lease prepayments	158,681	—	6,626	—	—	(6,151)	159,156
Investments in associated corporations	392,386	(85,317)	9,724	11,807	—	—	328,600
Investments in joint ventures	—	164,979	—	—	—	—	164,979
Other investments	446,430	(439,665)	—	—	—	—	6,765
Investment properties	—	34,146	—	—	—	—	34,146
Goodwill	212,636	—	—	—	—	—	212,636
Amount due from associate	—	61,475	—	—	—	—	61,475
Deferred income taxes	19,445	—	—	—	—	125,788	145,233
<b>Total non-current assets</b>	<b>3,631,740</b>	<b>47,487</b>	<b>22,092</b>	<b>11,807</b>	<b>—</b>	<b>119,637</b>	<b>3,832,763</b>
<b>TOTAL ASSETS</b>	<b>9,712,678</b>	<b>221,067</b>	<b>22,092</b>	<b>11,807</b>	<b>—</b>	<b>—</b>	<b>9,967,644</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at December 31, 2008 (date of transition to IFRS) (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Liabilities</b>							
<b>Current liabilities</b>							
Short-term bank loans	1,068,675	2,284	—	—	77,773	—	1,148,732
Amount due to holding company	451	—	—	—	—	—	451
Amount due to related parties	204,910	—	—	—	—	—	204,910
Trade payables	2,612,928	6,208	—	—	—	—	2,619,136
Income taxes payable	10,998	2,279	—	—	—	—	13,277
Accrued expenses and other liabilities	937,084	31,146	—	—	—	(188,599)	779,631
Other liabilities	—	5	—	—	—	—	5
Provision for product warranty	—	—	—	—	—	188,599	188,599
Deferred income taxes	15,282	—	—	—	—	(15,282)	—
Deferred gain	202,950	—	—	—	—	—	202,950
<b>Total current liabilities</b>	<b>5,053,278</b>	<b>41,922</b>	<b>—</b>	<b>—</b>	<b>77,773</b>	<b>(15,282)</b>	<b>5,157,691</b>
<b>Non-current liabilities</b>							
Long-term liabilities	254,529	—	—	—	(77,773)	—	176,756
Other liabilities	—	2,080	—	—	—	—	2,080
Deferred tax liability	—	876	—	—	—	15,282	16,158
<b>Total non-current liabilities</b>	<b>254,529</b>	<b>2,956</b>	<b>—</b>	<b>—</b>	<b>(77,773)</b>	<b>15,282</b>	<b>194,994</b>
<b>TOTAL LIABILITIES</b>	<b>5,307,807</b>	<b>44,878</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,352,685</b>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

*Statement of reconciliation of the accounts presented in accordance with US GAAP and IFRS (cont'd)*

**Consolidated Statement of Financial Position as at December 31, 2008 (date of transition to IFRS) (cont'd)**

	US GAAP Rmb'000	Consolidation of HLGE Rmb'000 (Note 2.1.1)	Negative goodwill Rmb'000 (Note 2.1.2)	Amortisation of Rmb'000 (Note 2.1.3)	Borrowings Rmb'000 (Note 2.1.4)	Reclassifi- cations Rmb'000 (Note 2.1.5)	IFRS Rmb'000
<b>Equity attributable to equity holders of the parent</b>							
Issued capital	1,724,196	—	—	—	—	—	1,724,196
Preference shares	—	36	—	—	—	—	36
Statutory reserves	287,473	—	—	—	—	—	287,473
Capital reserves	—	2,942	—	—	—	—	2,942
Retained earnings	1,369,821	128,866	16,512	11,807	—	—	1,527,006
Other components of equity	49,335	(145,808)	—	—	—	—	(96,473)
<b>Equity attributable to equity holders of the parent</b>							
	3,430,825	(13,964)	16,512	11,807	—	—	3,445,180
Minority interests	974,046	190,153	5,580	—	—	—	1,169,779
<b>Total equity</b>	<b>4,404,871</b>	<b>176,189</b>	<b>22,092</b>	<b>11,807</b>	<b>—</b>	<b>—</b>	<b>4,614,959</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>9,712,678</b>	<b>221,067</b>	<b>22,092</b>	<b>11,807</b>	<b>—</b>	<b>—</b>	<b>9,967,644</b>

#### 2.1.1 Consolidation of HL Global Enterprises Limited ("HLGE")

Upon the conversion of unsecured non-redeemable convertible cumulative preference shares on November 15, 2006, the Company's interest in HLGE increased from 29.1% to 45.4%. The Group also owned 98.8% interest of redeemable convertible preference shares series A ("RCPS A") and redeemable convertible preference shares series B ("RCPS B") in HLGE.

Under US GAAP, the Company consolidates majority-owned subsidiaries and those entities that the Company has determined that it has a direct or indirect controlling financial interest in. HLGE was not consolidated under US GAAP as the Company holds less than 50% of the voting rights. HLGE was also assessed not to be a variable interest entity under US GAAP.

IAS 27 focuses on the consolidation model based on the concept of the power to control, with control being the ability to govern the financial and operating policies of an entity to obtain benefits. Control is presumed to exist when there is majority voting interest, and potential voting rights are considered. Should the conversion of RCPS A and B be exercised, the Group would have the potential to increase its ownership interest in HLGE to 51%. The Group therefore believes that it is appropriate to consolidate HLGE under IFRS since November 15, 2006, and for the financial periods ended December 31, 2007, 2008 and 2009 based on the potential voting rights in RCPS A and RCPS B.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

#### 2.1.2 Negative goodwill

As a result of the rights issue of 87,260,288 rights shares on February 16, 2006, the Company's equity interest in TCL increased to 19.4%. On August 15, 2006, the Company exercised its right to convert all of its 52,933,440 convertible bonds into 529,334,400 new ordinary shares in the capital of TCL. There is negative goodwill arising from acquisition of TCL from the above transactions. As of January 1, 2008 and December 31, 2008, the Group recorded a negative goodwill of Rmb 10,573 and Rmb 9,724.

During the year ended December 31, 2008, YMMC acquired 75% in Guangxi Yuchai Anda Gearbox Company Limited ("Anda") which gave rise to a negative goodwill of Rmb 12,368. Please refer to Note 5 for details of acquisition.

Under IFRS, any excess of the Group's share in the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. US GAAP requires such excess to be allocated to the sum of the amounts assigned to assets acquired and liabilities assumed over the cost of acquiring entity, as a pro-rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets. Annual amortization of the negative goodwill will then be the allocated negative goodwill over the remaining useful lives of the qualifying acquired assets.

#### 2.1.3 Share of results of associate – Thakral Corporation Limited ("TCL")

On August 15, 2006, the Group exercised its rights to convert all its convertible bonds issued by TCL into new ordinary shares in the capital of TCL. Upon the issuance of the new shares, the Group's interest in TCL increased to 36.6% of the total issued and outstanding shares and equity accounted TCL as its associated company. Under IFRS, the Group reversed its fair value loss in the convertible bond previously recorded under US GAAP as part of the cost of associate company.

#### 2.1.4 Bank borrowings

Under US GAAP, the Group had breached a provision of a long-term loan arrangement but classified it as current as it has received a waiver before the authorization of the financial statements. Under IAS 1, the Group reclassified its non-current interest-bearings loans and borrowings as current liabilities as it has breached a provision of a long-term loan arrangement. The agreement from the lender to not demand payment as a consequence of the breach was only obtained after the reporting period but before the authorization of the financial statements.

#### 2.1.5 Reclassifications

##### Presentation of deferred tax assets and liabilities

Under US GAAP Accounting Standards Codification No. 740 Income Taxes, deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting. However, IAS 1 "Presentation of Financial Statements" prohibit recognition of deferred tax assets (liabilities) as current assets (liabilities). Hence, management has reclassified deferred tax assets and liabilities as non-current assets and liabilities.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

#### 2.1.5 Reclassifications (cont'd)

##### **Presentation of current and non-current prepaid operating leases**

Under IAS 17, the Group is required to disclose the carrying amount of current and non-current prepaid operating leases. There is no specific guidance and requirement under US GAAP.

##### **Minority interests**

Under IFRS, all minority interest balances are classified as a component of equity. Under US GAAP for years prior to the adoption of Accounting Standards Codification No. 810-10-65 Consolidation minority interest balances were classified as a liability.

#### 2.1.6 Others

##### **Presentation of warranty costs**

We have previously presented the warranty cost as a part of cost of sales. It has now being presented as a part of selling, general and administrative expenses as the directors are of the opinion that selling expenses are more representative of the nature of the after sales services. This will also align the company's classification with that of its parent company.

##### **Presentation of share of results of associates / discontinued operations**

On December 1, 2009, we announced that concurrently with the capital reduction and cash distribution exercise to be undertaken by TCL, we intend to appoint a broker to sell 550,000,000 shares in TCL at a price of S\$0.03 per share on an ex-distribution basis ("Placement"). As of December 31, 2009, a total of 536,000,000 shares out of 550,000,000 shares available in the Placement have been taken up. The Placement is conditional upon the completion of the capital reduction and cash distribution exercise and subject to all the shares in the Placement being sold, our total shareholding in TCL will decrease from 34.4% to 13.4%. The investment in TCL was classified as a disposal group held for sale and as a discontinued operation as at December 31, 2009.

The results of TCL for the year are equity accounted and presented as discontinued operations for the year ended December 31, 2009 and December 31, 2008.

#### 2.1.7 Cash flow statement

The effects of transition from US GAAP to IFRS are due mainly to the consolidation of HLGE. Operating, investing and financing cash flows of the Company changed under IFRS as a result of incorporating the cash flow of HLGE. The income from interest that was earned by the Company from its holding in the zero coupon bonds and the partial redemption of the zero coupon bonds were eliminated under IFRS.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of China Yuchai International Limited and its subsidiaries as at January 1, 2008, December 31, 2008 and December 31, 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statements and within equity in the consolidated balance sheets, separately from parent shareholders' equity. Transactions with minority interests are accounted for using the entity concept method whereby, transactions with minority interests are accounted for as transactions with owners. Gain or loss on disposal to minority interests is recognized directly in equity.

#### (a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (a) Business combinations and goodwill (cont'd)

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

#### (b) Investments in associates

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is eliminated and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (c) Investments in joint ventures

The Group has an interest in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the equity method.

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint ventures.

The share of profit of joint venture is shown on the face of the income statement. This is the profit attributable to equity holders of the joint venture and therefore is profit after tax and minority interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the income statement.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

#### (d) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (d) Non-current assets held for sale and discontinued operations (cont'd)

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes even when the Group retains a non-controlling interest after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

#### (e) Foreign currency translation

The Company's functional currency is the US dollar. The Group's consolidated financial statements are presented in Renminbi (RMB), the presentation currency, as it is the same currency as the functional currency of Yuchai, the largest operating segment of the Group.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### **Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the consolidated statements of operations as part of "Other income, net".

The Company's reporting currency is the Renminbi. Assets and liabilities of the Company and its subsidiaries whose functional currency is not the Renminbi are translated into Renminbi using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the year which approximates the actual exchange rates. The gains and losses resulting from translation of financial statements are recorded in accumulated other comprehensive income/(loss), a separate component within equity. Cumulative translation adjustments are recognized as income or expenses upon disposal or liquidation of foreign subsidiaries and affiliates.

For the US dollar convenience translation amounts included in the accompanying consolidated financial statements, the Renminbi equivalent amounts have been translated into U.S. dollars at the rate of Rmb 6.8267= US\$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on March 1, 2010. No representation is made that the Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate or at any other rate prevailing on March 1, 2010 or any other date.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

##### ***Sale of goods***

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

##### ***Sale of development properties***

Revenue from property development is recognised on a percentage of completion basis only in respect of units sold, when construction of the property is at an advanced stage and aggregate sales proceeds and costs can be reasonably estimated.

##### ***Rendering of services***

Revenue from rendering of services relates to project management contracts and hotel room and restaurant operations. Revenue is recognised over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be performed.

##### ***Guarantee fee income***

Guarantee fees received or receivable for a guarantee issued are recorded in "Accrued expenses and other liabilities" based upon the estimated fair value at the inception of such guarantee obligations, and are recognized as revenue on a straight line basis over the respective terms of the guarantees.

##### ***Interest income***

Interest income is recognized as it accrues, using effective interest method.

##### ***Rental income***

Rental income receivable under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received. Contingent rentals are recognised as income in the accounting period in which they are earned.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (f) Revenue recognition (cont'd)

##### ***Dividends***

Dividend income from unquoted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from quoted investments is recognised when dividends are received.

#### (g) Taxes

##### ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in consolidated statement of comprehensive income is recognized in consolidated statement of comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### ***Deferred tax***

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (g) Taxes (cont'd)

##### **Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### (h) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the relevant asset by equal annual installments.

#### (i) Pensions and other post employment benefits

The Group participates in and makes contributions to the national pension schemes as defined by the laws of the countries in which it has operations. The contributions are at a fixed proportion of the basic salary of the staff. Contributions are recognised as compensation expense in the period in which the related services are performed.

#### (j) Financial instruments – initial recognition and subsequent measurement

##### **Financial assets**

##### **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### **Financial assets (cont'd)**

##### **Initial recognition and measurement (cont'd)**

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

##### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

##### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### **Financial assets (cont'd)**

##### ***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

The Group did not have any held-to-maturity investments during the years ended December 31, 2009, December 31, 2008 and January 1, 2008.

##### ***Available-for-sale financial investments***

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### **Financial assets (cont'd)**

##### ***Derecognition***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### **Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### Impairment of financial assets (cont'd)

###### ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### Impairment of financial assets (cont'd)

###### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

##### Financial liabilities

###### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contracts.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### **Financial liabilities (cont'd)**

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

##### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

##### **Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

##### **Intra-group financial guarantees**

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to the income statement.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Financial instruments – initial recognition and subsequent measurement (cont'd)

##### Financial liabilities (cont'd)

##### ***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 37.

#### (k) Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (k) Property, plant and equipment (cont'd)

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

No depreciation is provided on freehold land. Construction-in-progress is not depreciated until it is ready for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings	:	50 years
Leasehold land buildings & improvements	:	Shorter of 15 to 50 years or lease term
Plant & machinery	:	3 to 20 years
Office furniture, fittings and computer equipment	:	3 to 20 years
Motor and transport vehicles	:	3.5 to 6 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

The Group capitalizes interest with respect to major assets under installation or construction based on the average cost of the Group's borrowings. Repairs and maintenance of a routine nature are expensed while those that extend the life of assets are capitalized. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets and any gain or loss is included in the consolidated statements of operations.

Construction in progress represents factories under construction and machinery and equipment pending installation. All direct costs relating to the acquisition or construction of buildings and machinery and equipment, including interest charges on borrowings, are capitalized as construction in progress.

#### (l) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (l) Leases (cont'd)

##### ***Prepaid operating lease***

Lease prepayments represent payments to the PRC land bureau for land use rights, which are charged to expense on a straight-line basis over the respective periods of the rights which are in the range of 15 to 50 years.

##### ***Group as a lessee***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

##### **Sale and leaseback**

In accordance with IAS 17, *Leases*, the gain or loss on sale and operating leaseback transactions is recognized in the consolidated income statement immediately if (i) the Group does not maintain or maintains only minor continuing involvement in these properties, other than the required lease payments and (ii) these transactions occur at fair value. Any gain or loss on sale and finance leaseback transactions is deferred and amortized over the term of the lease.

##### ***Group as a lessor***

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### (m) Borrowing costs

The Group capitalized specific and general borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when they are incurred. In order to present consistent financial policies during the period of initial adoption of IFRS, the Group adopted the Standard beginning 1 January 2008.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (m) Borrowing costs (cont'd)

A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining the asset, the amount of borrowing costs eligible for capitalization should be determined as the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining the asset, the amount of borrowing costs eligible for capitalization is by applying a capitalization rate to the expenditures on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing costs incurred during that period.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### (n) Research and development expenses

Research and development costs are expensed as incurred. The Group received research and development subsidies of Rmb 32,653 and Rmb 43,610 (US\$6,388) for the years ended December 31, 2008 and December 31, 2009 respectively.

The subsidies received are recognised as deferred income and net off against research and development expenses when earned.

#### (o) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### (p) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (p) Impairment of non-financial assets (cont'd)

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### (q) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

#### (r) Provisions

##### **General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (r) Provisions (cont'd)

##### **Product warranty**

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. Warranties extend for a duration (generally 12 months to 24 months) or mileage (generally 80,000 kilometers to 250,000 kilometers), whichever is the lower. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. In previous years, warranty claims have typically not been higher than the relevant provisions made in our consolidated balance sheet. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

#### (s) Convertible preference shares

Convertible preference shares are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

#### (t) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at historic cost less provisions for depreciation and impairment. Disclosures about the cost basis and depreciation rates are disclosed in Note 2.2 (k).

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 2. Basis of preparation and accounting policies (cont'd)

### 2.2 Summary of significant accounting policies (cont'd)

#### (u) Development properties

Development properties are those properties which are held with the intention of development and sale in the ordinary course of business. They are stated at the lower of cost plus, where appropriate, apportion of attributable profit, and estimated net realizable value, net of progress billings. Net realizable value represents the estimated selling price less costs to be incurred in the selling the properties.

The cost of properties under development comprise specifically identified costs, including acquisition costs, development expenditure, borrowing costs and other related expenditure. Borrowing costs payable on loans funding a development property are also capitalized, on a specific identification basis, as part of the costs of the development property until the completion of development.

## 3. Significant accounting judgments, estimates and assumptions

### 3.1 Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### ***Operating lease commitments— Group as lessor***

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

### 3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Impairment of non-financial assets***

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 17.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 3. Significant accounting judgments, estimates and assumptions (cont'd)

### 3.2 Estimates and assumptions (cont'd)

#### ***Impairment of property, plant and equipment***

Long-lived assets to be held and used, such as property, plant and equipment and construction in progress are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment charge is recognised in the amount by which the carrying amount of the asset exceeds the fair value of the asset, if the carrying value is not recoverable from the expected future cash flows or fair value less costs to sell.

Assets to be disposed off would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The carrying amounts of property, plant and equipment as of January 1, 2008, December 31, 2008 and December 31, 2009 are Rmb 2,662,370, Rmb 2,719,773 and Rmb 3,146,206 (US\$460,867) respectively.

The Group periodically conducts an impairment review on the conditions of our property, plant and equipment.

An impairment loss of Rmb 7,785 (US\$1,140) (2008: Rmb 69,930) was charged to the consolidated income statement under selling, general and administrative expense. The 2009 impairment charges were as follows:

- Property, plants and equipments Rmb 7,785 (US\$1,140) (2008: Rmb 43,664)
- Prepaid operating leases Rmb nil (US\$nil) (2008: Rmb 26,266)

The economic slowdown in late 2008 resulted in lower hotel utilization and reduced building tenancy. As a result, the Group concluded that future cash flows from the hotel and office building were not as originally anticipated, leading to the impairment charge for the hotel and office building in the fiscal year 2008. The impairment for 2009 was due to assets that were not in use.

#### ***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of January 1, 2008, December 31, 2008 and December 31, 2009 are Rmb 147,860, Rmb 145,233 and Rmb 241,718 (US\$35,408) respectively.

The Group has unrecognized tax loss carried forward amounting to Rmb 4,608, Rmb 1,362, Rmb 1,362 (US\$200) as of January 1, 2008, December 31, 2008 and December 31, 2009 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by Rmb 340 (US\$50) for year ended December 31, 2009.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 3. Significant accounting judgments, estimates and assumptions (cont'd)

### 3.2 Estimates and assumptions (cont'd)

#### ***Fair value of financial instruments***

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### ***Provision for product warranty***

The Group recognises a provision for product warranty in accordance with the accounting policy stated on Note 2.2 (r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 194,898, Rmb 188,599, and Rmb 259,534 (US\$38,017) respectively.

#### ***Withholding tax***

The China's Unified Enterprise Income Tax Law ("CIT") also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax will be imposed on dividends paid to us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of January 1, 2008, December 31, 2008 and December 31, 2009 are Rmb nil, Rmb 15,282 and Rmb 30,946 (US\$4,533) respectively.

The Company estimated the withholding tax by taking into consideration the dividend payment history of Yuchai and the operating cash flows needs of the Company.

#### ***Derecognition of bills receivable***

The Group sells bills receivables to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivables when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivables are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. The carrying amounts of the bills receivables as at January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 2,392,744, Rmb 2,140,839 and Rmb 2,117,042 (US\$310,112) respectively.

#### ***Inventory provision***

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 88,439, Rmb 136,256 and Rmb 286,947 (US\$42,033) respectively.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 3. Significant accounting judgments, estimates and assumptions (cont'd)

### 3.2 Estimates and assumptions (cont'd)

#### **Accounts receivable provisions**

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of January 1, 2008, December 31, 2008 and 2009 were Rmb 65,013, Rmb 96,147 and Rmb 76,646 (US\$11,227) respectively.

## 4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group will adopt the Standards when they are effective.

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective July 1, 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 9 Financial Instruments effective for annual periods beginning on or after January 1, 2013
- IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items effective July 1, 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective for annual periods beginning on or after July 1, 2009
- IFRIC 18 Transfers of Assets from Customers effective July 1, 2009
- Improvements to IFRSs (April 2009) effective for periods beginning on or after January 1, 2010, unless stated otherwise

#### **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The adoption of these changes will not have a material effect on the consolidated financial statements as of January 1, 2008, December 31, 2008 and December 31, 2009.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 4. Standards issued but not yet effective (cont'd)

### IFRS 9 Financial Instruments

IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. It requires all financial assets to be:

- (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
- (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.
- (c) subsequently measured at amortised cost or fair value.

The Group is evaluating the impact of the adoption of IFRS 9.

### IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

### IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

### Improvements to IFRSs (April 2009)

In April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Management will evaluate the impact of this amendment to the consolidated financial statements if it applies.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 4. Standards issued but not yet effective (cont'd)

### Improvements to IFRSs (April 2009) (cont'd)

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 17 Leases: The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.
- IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.
- IAS 38 Intangible Assets: If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangibles as a single asset provided the individual assets have similar useful lives. In addition, the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.
- IAS 39 Financial Instruments: Recognition and Measurement: When assessing loan prepayment penalties as embedded derivatives, a prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

In addition, the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken.

Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- IFRIC 9 Reassessment of Embedded Derivatives: IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.
- IFRIC 16 Hedges of a Net Investment in A Foreign Operation: Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met.

Management will evaluate the impact of this amendment to the consolidated financial statements if it applies.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 5. Business combinations and acquisition of subsidiaries

### Acquisitions in 2008

#### Acquisition of Guangxi Yuchai Anda Gearbox Company Limited (“Anda”)

Anda was established by Yuchai Group Company and Guangzhou Anda Crankshaft Company Limited (“Guangzhou Anda”) on July 2005 as a limited liability company in Yulin with a registered capital of Rmb 20 million. It was mainly engaged in the manufacturing and sales of automobile accessories. Upon establishment, Yuchai Group Company and Guangzhou Anda held 25% and 75% interests in Anda, respectively. In 2008, to expand the business, YMMC entered into an agreement with Guangzhou Anda to acquire 75% interests in Anda at a consideration of Rmb 12 million (US\$1.8 million). The consideration was paid to Guangzhou Anda in June 2008. On May 6, 2008, YMMC appointed the executive director and general manager to take over the operations of Anda. Anda has been included in the Yuchai’s operating segment since 2008.

The fair value of the identifiable assets and liabilities of Anda, as at the date of acquisition:

	Fair value recognised on acquisition Rmb’000	Previous carrying value Rmb’000
Property, plant and equipment	24,455	19,207
Intangible assets	28,216	8,352
Cash and cash equivalents	176	176
Trade receivables	213	213
Inventories	1,890	1,890
Other current assets	1,870	1,870
Tax recoverable	53	53
	56,873	31,761
<b>Trade Payables</b>		
Trade payables	(8,634)	(8,634)
Other payables	(9,470)	(9,470)
Deferred tax liability	(6,278)	—
	(24,382)	(18,104)
Net assets	32,491	13,657
Cash flow on acquisition:		
Net cash acquired with the subsidiary		176
Cash paid		(12,000)
<b>Net cash outflow</b>		(11,824)

The net assets of Anda acquired as at May 6, 2008 were Rmb 32.5 million (US\$4.8 million). A negative goodwill amounting to Rmb 12.4 million (US\$1.8 million) arose as a result of the difference between the net assets acquired and the cost of acquisition. The negative goodwill was recognised in the income statement for the financial year ended December 31, 2008.

From the date of acquisition, Anda has contributed a net loss of Rmb 1.3 million to the profit for the year from continuing operations of the Group. If the combination has taken place at the beginning of the year, the loss for continuing operations for the Group would have been reduced by Rmb 2.3 million and there is no impact on the revenue of the Group.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 6. Investments in subsidiaries

Details of *significant* subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ Business	Group's effective equity interest		
		1.1.2008 %	31.12.2008 %	31.12.2009 %
Guangxi Yuchai Machinery Company Limited	Republic of China	76.4	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited (formerly known as Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited)	Republic of China	74.2	74.2	74.2
Guangxi Yuchai Machinery Monopoly Development Co. Ltd	Republic of China	54.9	54.9	54.9
Xiamen Yuchai Diesel Engines Co. Ltd	Republic of China	76.4	76.4	76.4
Guangxi Yulin Hotel Company Limited	Republic of China	76.4	76.4	76.4
Jining Yuchai Engine Company Limited <sup>(1)</sup>	Republic of China	—	39.8	39.8
Zhejiang Yuchai Sanli Engine Company Limited <sup>(1)</sup>	Republic of China	—	39.7	39.7
HL Global Enterprises Limited (formerly known as HLG Enterprises Limited) <sup>(2)</sup>	Singapore	45.4	45.4	45.4

(1) The Group considers these companies as subsidiaries as it is able to govern the financial and operating policies of these companies through Yuchai's equity interest and its ability to control the companies' equity interest.

(2) Having regard to the potential voting rights attributable to the RCPS in HLGE, the Group considers HLGE a subsidiary as it is able to govern the financial and operating policies of HLGE.

## 7. Investment in associates

Movement in the Group's share of the associates' post acquisition retained earnings is as follows:

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Initial cost	436,817	437,886	439,335	64,355
At 1 January	(7,678)	(7,678)	(40,099)	(5,874)
Share of results after tax	—	(31,268)	15,976	2,340
Dividend received	—	—	(6,038)	(884)
Translation adjustment	—	(1,153)	110	16
At 1 January/31 December	(7,678)	(40,099)	(30,051)	(4,402)
Share of post acquisition reserves	23,628	(69,187)	(48,153)	(7,054)
Reclassification to assets held for sale	—	—	(321,487)	(47,092)
	452,767	328,600	39,644	5,807

The Group's fair values of investment in an associate for which there is a published price quotation as of January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 405,560, Rmb 235,047 and Rmb nil (US\$ nil) respectively.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 7. Investment in associates (cont'd)

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ Business	Group's effective equity interest		
			1.1.2008 %	31.12.2008 %	31.12.2009 %
Thakral Corporation Limited ("TCL") <sup>(1)</sup>	Investment holding	Singapore	36.6	34.4	34.4
<b>Held by subsidiaries:</b>					
Scientex Park (M) Sdn Bhd <sup>(2)</sup>	Property investment and development	Malaysia	12.7	12.7	12.7
Sinjori Sdn Bhd <sup>(2)</sup>	Property investment and development	Malaysia	12.7	12.7	12.7
Guangxi Yuchai Automobile Spare parts Manufacturing Co., Ltd	Manufacture spare part and sales of Auto spare part, Diesel engine & spare part, Metallic materials, Generator & spare part, Chemical products (exclude Dangerous Goods), lubricating oil.	Republic of China	20.0	20.0	20.0
Yuchai Quan Xing Co., Ltd	Manufacture spare part and sales of Auto spare part, Diesel engine & spare part, Metallic materials, Generator & spare part, Chemical products (exclude Dangerous Goods), lubricating oil.	Republic of China	—	—	20.0
Yuchai Property Management Co., Ltd	Property management	Republic of China	—	30.0	30.0

(1) Reclassified to assets held for sale in 2009 (See Note 12).

(2) The Company has significant influence in these entities through HLGE who held direct equity interests of 28% interest in these entities.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 7. Investment in associates (cont'd)

The summarised financial information on the Group's associates, which is not adjusted for the percentage of ownership held by the Group, is as follows:

	<b>1.1.2008</b> <b>Rmb'000</b>	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
<b>Assets and liabilities</b>				
Total assets	1,688,810	1,411,790	282,365	41,362
Total liabilities	167,817	260,840	107,379	15,729
Net assets	<u>1,520,993</u>	<u>1,150,950</u>	<u>174,986</u>	<u>25,633</u>
<b>Results</b>				
Revenue		2,274,869	163,716	23,982
(Loss)/profit after taxation		<u>(91,192)</u>	<u>2,236</u>	<u>328</u>

## 8. Investment in joint ventures

Movement in the Group's share of the joint ventures' post acquisition retained earnings is as follows:

	<b>1.1.2008</b> <b>Rmb'000</b>	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Unquoted equity shares, at cost	235,304	220,398	287,510	42,116
At 1 January	(54,683)	(54,683)	(46,907)	(6,871)
Share of results after Tax	—	13,692	(16,000)	(2,344)
Dividend received	—	(10,476)	(19,122)	(2,801)
Translation adjustment	—	4,560	(1,551)	(228)
At 1 January/31 December	<u>(54,683)</u>	<u>(46,907)</u>	<u>(83,580)</u>	<u>(12,244)</u>
Share of post acquisition retained earnings	<u>(20,496)</u>	<u>(8,512)</u>	<u>(6,942)</u>	<u>(1,016)</u>
	<u>160,125</u>	<u>164,979</u>	<u>196,988</u>	<u>28,856</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 8. Investment in joint ventures (cont'd)

The Group has interests in the following joint ventures:

Name of company	Percentage of interest held			Principal activities
	1.1.2008 %	31.12.2008 %	31.12.2009 %	
<b>Held by subsidiary:</b>				
Augustland Hotel Sdn Bhd	45	45	45	Hotel development and operation
Cophorne Hotel Qingdao Co., Ltd (formerly known as Hotel Equatorial Qingdao Co., Ltd)	60	60	60	Owns and operates a hotel in Qingdao, People's Republic of China
Shanghai Equatorial Hotel Management Co., Ltd	49	49	49	Hotel management and hotel consultancy
Shanghai International Equatorial Hotel Co., Ltd	50	50	50	Owns and operates a hotel and club in Shanghai, People's Republic of China
Y&C Engine Co., Ltd	—	—	45	Heavy duty diesel engine

The Group has included in its consolidated financial statements its share of assets and liabilities incurred by the joint ventures and its share of the results of the joint ventures using equity method.

The summarised financial information on the Group's share of the joint ventures is as follows:

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Assets and liabilities</b>				
Current assets	66,657	64,270	114,502	16,773
Non-current assets	275,624	258,496	237,352	34,768
Current liabilities	47,338	43,428	96,003	14,063
Non-current liabilities	88,065	89,409	27,382	4,011
Net assets	206,878	189,929	228,469	33,467
<b>Results</b>				
Revenue	142,927	135,488	107,229	15,707
Profit/(loss) after Taxation	24,857	7,509	(12,795)	(1,874)



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 9. Revenue

	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Sale of goods	10,358,124	13,139,578	1,924,733
Revenue from hotel and restaurant operations	37,618	26,268	3,848
Revenue from sale of development properties	4,962	6,744	988
Rental income	4,084	3,313	485
	<u>10,404,788</u>	<u>13,175,903</u>	<u>1,930,054</u>

## 10.1 Depreciation and amortization, sales commissions and shipping and handling expenses

Depreciation and amortization of property, plant and equipment are included in the following captions.

	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Cost of goods sold	182,473	180,043	26,374
Research and development expenses	18,144	22,175	3,248
Selling, general and administrative expenses	72,011	83,096	12,172
	<u>272,628</u>	<u>285,314</u>	<u>41,794</u>

Sales commissions to sales agents are included in the following caption:

	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Selling, general and administrative expenses	<u>59,129</u>	<u>79,129</u>	<u>11,591</u>

Sales related shipping and handling expenses not separately billed to customers are included in the following caption:

	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Selling, general and administrative expenses	<u>164,364</u>	<u>215,621</u>	<u>31,585</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 10.2 Other income

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Interest income	15,228	31,576	4,625
Foreign exchange loss, net	(3,172)	(6,543)	(958)
Dividend income from associates	—	11,162	1,635
Loss on disposal of property, plant and equipment	(3,525)	(8,618)	(1,262)
Gain on disposal of associates	—	1,906	279
Negative goodwill	12,368	—	—
Gain on assignment of debts (i)	—	5,657	829
Write-back of impairment of receivables (i)	—	4,895	717
Write-back of trade and other payables (i)	869	23,649	3,464
Government grant income	—	14,823	2,171
Others, net	(2,308)	(952)	(139)
	19,460	77,555	11,361

### Note:

- (i) These are largely due to the write-back of trade and other payables, gains attributed to the debts settlement arrangement with the official assignee of Malkn Sdn.Bhd., a subsidiary of HLGE, which is currently under creditors' liquidation.

## 10.3 Research and development costs

Research and development costs recognized as an expense in the income statement amount to Rmb 297,259 (US\$43,544) (2008: Rmb 184,794).

## 10.4 Finance costs

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Interest expense for:			
Bank term loans	66,765	32,619	4,778
Bills discounting	90,809	60,723	8,895
Corporate bonds	2,991	(3,332)	(488)
Bank charges	1,344	2,401	352
Less: Borrowing costs capitalized	(11,500)	(14,918)	(2,185)
	150,409	77,493	11,352

The rate used to determine the amount of borrowing costs eligible for capitalization was 4.56% (2008:5.95%), which is the effective interest rate of the borrowings.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 10.5 Staff costs

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Wages and salaries <sup>(i)</sup>	644,330	763,483	111,838
Contribution to defined contribution plans <sup>(i)</sup>	116,379	134,017	19,631
Retrenchment costs	7,097	38	5
Executive bonuses	34,818	45,182	6,618
Staff welfare	63,243	47,439	6,949
Others	5,992	5,369	787
	871,859	995,528	145,828

### Note:

- (i) As stipulated by the regulations of the PRC, Yuchai and its subsidiaries participate in defined contribution retirement plans organized by the Guangxi Regional Government and Beijing City Government for its staff. All staff are entitled to an annual pension equal to a fixed proportion of their final basic salary amount at their retirement date. For the years ended December 31, 2009 and 2008, Yuchai and its subsidiaries were required to make contributions to the retirement plan at a rate of 20.0% of the basic salary of their staff. Expenses incurred in connection with the plan were Rmb 124,257 (2008: Rmb 106,062).

Yuchai and its subsidiaries have no obligation for the payment of pension benefits or any other post retirement benefits beyond the annual contributions described above.

- (ii) In 2008, certain employees of Yuchai were eligible for early retirement. As part of this plan, Yuchai will compensate these employees with a base salary and the relevant social insurances, until they formally retire according to the statutory retirement age. Yuchai accrued the statutory termination benefits at the time management determined it was probable that benefits would be paid and the amount was reasonably estimated. The liability of Rmb 10,800 was measured based on the fair value of the liability as of the respective termination dates, taking into consideration the impact of discounting and interest premiums.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 11. Income tax

Income tax expense in the consolidated statements of operations consists of:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Current income tax:</b>			
Current income tax charge	87,676	222,047	32,526
Adjustments in respect of current income tax of previous year	4,942	5,999	879
<b>Deferred tax:</b>			
Relating to origination and reversal of temporary differences	17,908	(79,632)	(11,665)
Adjustments in respect deferred tax of previous year		(1,191)	(175)
Income tax expense reported in the income statement	110,526	147,223	21,565

Income tax expense reported in the consolidated statements of income differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the three years ended December 31, 2009 for the following reasons:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Computed tax expense	72,261	145,000	21,240
Adjustments resulting from:			
Non-deductible expenses	19,326	808	118
Tax-exempt income	—	(43,143)	(6,320)
Utilisation of deferred tax benefits previously not recognised	858	165	24
Deferred tax benefits not recognised	10,491	4,968	728
Tax credits for R&D expense	(10,169)	(14,563)	(2,133)
Tax rate differential	(2,017)	33,516	4,910
Underprovision in respect of prior years			
— current	4,942	5,999	879
— deferred	—	(1,191)	(175)
Withholding tax expense	15,282	15,664	2,294
Other	(448)	—	—
Total	110,526	147,223	21,565

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 11. Income tax (cont'd)

### Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position				Consolidated income statement		
	1.1.2008	31.12.2008	31.12.2009	US	31.12.2008	31.12.2009	US\$
<b>Deferred income tax liabilities</b>							
Accelerated tax depreciation	(366)	(776)	(354)	(52)	—	—	—
Unremitted earnings from overseas source income	—	—	(440)	(64)	—	—	—
Expenditure currently deferred for tax purpose	(100)	(100)	(100)	(15)	—	—	—
PRC withholding tax on dividend income	—	(15,282)	(30,946)	(4,533)	(15,282)	(15,664)	(2,295)
	(466)	(16,158)	(31,840)	(4,664)	(15,282)	(15,664)	(2,295)
<b>Deferred income tax assets</b>							
Accelerated accounting depreciation	31,264	8,483	9,508	1,392	(22,781)	1,025	150
Write down of inventory	19,124	30,203	45,190	6,620	11,079	14,987	2,195
Allowance for doubtful debts	29,332	20,901	15,040	2,203	(8,431)	(5,861)	(859)
Accruals	68,022	75,405	120,931	17,714	7,383	45,526	6,669
Tax value of loss carried forward	—	2,323	1,191	175	2,323	(1,132)	(166)
Deferred income	—	7,918	41,312	6,052	7,918	33,395	4,892
Others	118	—	8,546	1,252	(117)	8,547	1,254
	147,860	145,233	241,718	35,408	(2,626)	96,487	14,135

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates, if any, is recognized in the statements of operations in the period that includes the enactment date.

The Group has been granted tax credits in relation to approved research and development costs. According to the relevant laws and regulations in the PRC prior to the new CIT law, the amount of credits relating to the purchase of certain domestic equipment entitled for deduction each year is limited to the incremental current income tax expense of the subsidiary for the year compared to the income tax expense of the subsidiary in the year immediately prior to the year the credit was approved.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 11. Income tax (cont'd)

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax will be imposed on dividends paid to us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. As at December 31, 2009, the provision for withholding tax payable was Rmb 30,946 (2008: Rmb 15,282).

The following table represents the classification of the Group's net deferred tax assets:

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Deferred tax assets	147,860	145,233	241,718	35,408
Deferred tax liabilities	(466)	(16,158)	(31,840)	(4,664)
	<u>147,394</u>	<u>129,075</u>	<u>209,878</u>	<u>30,744</u>

## 12. Discontinued operations

On December 1, 2009, we announced that concurrently with the capital reduction and cash distribution exercise to be undertaken by TCL, we intend to appoint a broker to sell 550,000,000 shares in TCL at a price of S\$0.03 per share on an ex-distribution basis ("Placement"). As of December 31, 2009, a total of 536,000,000 shares out of 550,000,000 shares available in the Placement have been taken up. The Placement is conditional upon the completion of the capital reduction and cash distribution exercise and subject to all the shares in the Placement being sold, our total shareholding in TCL will decrease from 34.4% to 13.4%. The Company equity accounted for the result of TCL for 11 months in 2009. The investment in TCL was classified as a disposal group held for sale and as a discontinued operation as at December 31, 2009.

The results of TCL for the year are equity accounted for 11 months ended November 30, 2009 and presented as discontinued operations for the year ended December 31, 2009 and December 31, 2008. The related reserves of TCL have been classified to "Reserve of asset classified as held for sale" on the statement of changes in equity as of December 31, 2009.

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Share of results of an associate:			
— Profit before tax	(33,731)	14,321	2,097
— Taxation	(254)	(1,299)	(190)
	<u>(33,985)</u>	<u>13,022</u>	<u>1,907</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 12. Discontinued operations (cont'd)

There are no net cash flows attributable to the discontinued operation.

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
(Loss)/Earnings per share:			
Basic, from discontinued operation	(0.91)	0.35	0.05
Diluted, from discontinued operation	(0.91)	0.35	0.05

## 13. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Net profit attributable to ordinary equity holders of the Parent from continuing operations	274,021	615,309	90,133
(Loss)/profit attributable to ordinary equity holders of the Parent from a discontinued operation	(33,985)	13,022	1,907
<b>Net profit attributable to ordinary equity holders of the Parent for basic earnings</b>	<b>240,036</b>	<b>628,331</b>	<b>92,040</b>
	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2009</b>
Weighted average number of ordinary shares for basic earnings per share	37,267	37,267	37,267

There were no potentially dilutive common shares in any of the years ended December 31, 2009 and 2008.

To calculate earnings per share amounts for the discontinued operation (see Note 12), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Net (loss)/profit attributable to ordinary equity holders of the Parent from discontinued operation for basic and diluted earnings per share calculations	(33,985)	13,022	1,907

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 14. Property, plant and equipment

	Freehold land Rmb'000	Leasehold land, buildings & improvements Rmb'000	Construction- in-progress Rmb'000	Plant and machinery Rmb'000	Office furniture, fittings and equipment Rmb'000	Motor and transport vehicles Rmb'000	Total Rmb'000
<b>Cost:</b>							
<b>At January 1, 2008</b>	662	1,414,464	184,791	2,407,075	112,138	71,415	4,190,545
Additions	—	9,214	277,469	46,084	14,007	15,553	362,327
Disposals	—	(49,314)	—	(33,529)	(15,447)	(14,934)	(113,224)
Acquisition of subsidiary	—	17,394	—	6,891	—	170	24,455
Transfers	—	106,661	(186,612)	79,951	—	—	—
Write-off	—	(2,308)	—	(112)	(78)	—	(2,498)
Translation difference	(71)	832	(56)	(459)	(385)	(32)	(171)
<b>At December 31, 2008 and January 1, 2009</b>	591	1,496,943	275,592	2,505,901	110,235	72,172	4,461,434
Additions	—	44,847	641,010	72,098	12,185	18,796	788,936
Disposals	—	(9,501)	—	(135,295)	(12,057)	(6,676)	(163,529)
Transfers	—	24,436	(307,337)	282,497	(108)	512	—
Write-off	—	(6,283)	—	(2,217)	(1,275)	—	(9,775)
Translation difference	3	(50)	1,196	47	(20)	(3)	1,173
<b>At December 31, 2009</b>	594	1,550,392	610,461	2,723,031	108,960	84,801	5,078,239



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 14. Property, plant and equipment (cont'd)

	Freehold land Rmb'000	Leasehold land, buildings & improvements Rmb'000	Construction-in-progress Rmb'000	Plant and machinery Rmb'000	Office furniture, fittings and equipment Rmb'000	Motor and transport vehicles Rmb'000	Total Rmb'000
<b>Depreciation and impairment:</b>							
<b>At January 1, 2008</b>	662	260,274	—	1,163,589	71,671	31,979	1,528,175
Charge for the year	—	54,387	—	188,727	12,494	9,491	265,099
Disposals	—	(31,880)	—	(23,390)	(8,577)	(8,063)	(71,910)
Transfers	—	—	—	—	—	—	—
Write-off	—	(1,474)	—	(39)	(73)	—	(1,586)
Impairment loss	—	19,771	20,975	2,918	—	—	43,664
Reversal of impairment loss	—	(5,182)	—	(15,639)	—	(18)	(20,839)
Translation difference	(71)	191	—	(693)	(367)	(2)	(942)
<b>At December 31, 2008 and January 1, 2009</b>	591	296,087	20,975	1,315,473	75,148	33,387	1,741,661
Charge for the year	—	45,435	—	204,360	12,018	14,867	276,680
Disposals	—	(2,830)	—	(73,445)	(10,112)	(3,779)	(90,166)
Transfers	—	—	—	36	(36)	—	—
Write-off	—	(2,259)	—	(518)	(1,275)	—	(4,052)
Impairment loss	—	816	6,376	5,054	—	—	12,246
Reversal of impairment loss	—	—	—	(4,252)	—	(209)	(4,461)
Translation difference	3	(1)	—	75	48	—	125
<b>At December 31, 2009</b>	594	337,248	27,351	1,446,783	75,791	44,266	1,932,033
<b>Net book value:</b>							
At January 1, 2008	—	1,154,190	184,791	1,243,486	40,467	39,436	2,662,370
At December 31, 2008	—	1,200,856	254,617	1,190,428	35,087	38,785	2,719,773
At December 31, 2009	—	1,213,144	583,110	1,276,248	33,169	40,535	3,146,206
US\$	—	177,705	85,416	186,949	4,859	5,938	460,867

In 2008, the Rmb 43,664 (US\$6,396) of impairment loss represented the write down of certain property, plant and equipment to the recoverable amount. This has been recognized in the income statement in the line item "Selling, distribution and administrative costs". The recoverable amount was based on fair value less cost to sell and was determined at the level of the cash generating unit.

The impairment loss includes impairment of buildings in Yulin Hotel and Guilin office building. The recoverable amounts of these buildings have been determined based on fair value less cost to sell. Fair values are determined using discounted cash flow and a market comparison approach respectively. Please refer to Note 17 for more details.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 14. Property, plant and equipment (cont'd)

### Finance leases and assets under construction

The carrying value of plant and equipment held under finance leases at January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 15 (US \$2), Rmb 10 (US \$1), and Rmb 36,818 (US \$5,393) respectively. Leased assets are pledged as security for the related finance lease.

Land and buildings with a carrying amount at January 1, 2008, December 31, 2008 and December 31, 2009 of Rmb nil, Rmb nil, and Rmb 36,813 (US\$5,393) are subject to a first charge to secure two of the Group's bank loans (Note 19).

## 15. Investment properties

	Rmb'000	US\$'000
<b>Cost:</b>		
As at January 1, 2008	39,876	5,841
Translation during the year	(4,256)	(623)
As at December 31, 2008	35,620	5,218
Translation during the year	358	52
As at December 31, 2009	35,978	5,270
<b>Accumulated depreciation:</b>		
As at January 1, 2008	739	108
Charge during the year	735	108
As at December 31, 2008	1,474	216
Charge during the year	652	95
As at December 31, 2009	2,126	311
<b>Net book value:</b>		
As at January 1, 2008	39,137	5,733
As at December 31, 2008	34,146	5,002
As at December 31, 2009	33,852	4,959

Details of the investment property (non-current) as at December 31, 2009 are as follows:

Location	Description	Tenure	Land area (m2)	Floor area (m2)	Owned by
49 Jalan Wong Ah Fook, Johor Bahru, Malaysia (Wisma LKN)	18-storey office block	Freehold	1,133.1	6,948.02	LKN Development Pte Ltd

The commercial property is leased to external customers. Each of the lease is for periods of one to three years. Subsequent renewals are negotiated with the lessee.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 15. Investment properties (cont'd)

Investment property is stated at cost. The Company estimated the fair value of the investment property by obtaining an independent valuation from a professional appraiser. The fair values of the property being valued as at January 1, 2008, December 31, 2008 and December 31, 2009 were Rmb 42,521, Rmb 38,265 and Rmb 38,623 (US\$5,658) respectively. The fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period ended December 31, 2008 and December 31, 2009 are Rmb 2,241 and Rmb 179 (US\$26).

## 16. Prepaid operating leases

Yuchai and its subsidiaries are granted the land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government. The prepaid operating leases charged to expense were Rmb 6,794 and Rmb 7,982 (US\$1,169) for the year ended December 31, 2008 and 2009, respectively.

	<b>1.1.2008</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2009</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Current	5,767	6,151	7,273	1,065
Non-current	162,235	159,156	355,931	52,138
Total	168,002	165,307	363,204	53,203
	<b>1.1.2008</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2009</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Gross payments for prepaid operating leases	203,127	235,346	414,979	60,787
Less: Amounts charged to expense	(35,125)	(43,773)	(51,775)	(7,584)
Less: Impairment loss	—	(26,266)	—	—
Total	168,002	165,307	363,204	53,203

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 17. Goodwill

	Goodwill Rmb'000	Goodwill US\$'000
<b>Cost:</b>		
At January 1, 2008, December 31, 2008 and December 31, 2009	218,311	31,979
<b>Impairment:</b>		
At January 1, 2008	—	—
Impairment	5,675	831
At December 31, 2008 and December 31, 2009	5,675	831
<b>Net book value:</b>		
At January 1, 2008	218,311	31,979
At December 31, 2008	212,636	31,148
At December 31, 2009	212,636	31,148

Goodwill represents the excess of costs over fair value of net assets of businesses acquired.

Goodwill acquired through business combinations have been allocated to two cash-generating units for impairment testing as follows:

- Yuchai
- Yulin Hotel

### Carrying amount of goodwill allocated to each of the cash-generating units:

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Yuchai	212,636	212,636	212,636	31,148
Yulin Hotel	5,675	—	—	—
	218,311	212,636	212,636	31,148

### Yuchai unit

The Group performed its annual impairment test as at December 31, 2009, December 31, 2008 and January 1, 2008. The recoverable amount of the unit is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The business of Yuchai is stable since the Group had control since 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections is 16.98% (31.12.2008: 15.01%, 1.1.2008: 14.68%). No impairment was identified for this unit.

### Yulin Hotel unit

In 2008, the goodwill of Rmb 5,675 pertaining to the Yulin Hotel acquisition was fully impaired because the carrying amount is not recoverable from the expected future cash flows. The economic slowdown in late 2008 resulted in lower hotel utilization and reduced building tenancy. As a result, the Group concluded that future cash flows from Yulin Hotel were not as originally anticipated, leading to the impairment charge for the goodwill in the year ended December 31, 2008.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 17. Goodwill (cont'd)

### Key assumptions used in value in use calculations

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate estimates

Gross margin — Gross margin is based on estimated margins in the budget period.

Discount rates — Discount rates reflect management's estimate of the risks specific to the cash generating unit and was estimated based on Weighted Average Cost of Capital ("WACC"). This rate was weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group.

Growth rate estimates — Growth rates are based on management's estimate. The long term rates used to extrapolate the budget for Yuchai are 12.64% and 21.06% for 2009 and 2008 respectively.

### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Yuchai cash generating unit, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

For the Yulin Hotel cash generating unit, the goodwill is already fully impaired in 2008, and consequently, any adverse change in a key assumption will not result in a further impairment loss.

## 18. Other Receivables

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Amount due from joint ventures <sup>(i)</sup>	65,223	61,475	61,222	8,968
Deposits	—	—	2,000	293
Lease receivable	—	—	8,961	1,313
	<u>65,223</u>	<u>61,475</u>	<u>72,183</u>	<u>10,574</u>

### Note:

- (i) The non-current non-trade amounts due from joint venture partners are unsecured, with interest bearing at 1.719% (2008: 4.202%) per annum and are not expected to repay within 12 months from the financial year end.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 19. Other financial liabilities

### (a) Other liabilities (current and non-current)

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Preference shares	2,286	2,075	2,119	311
Finance lease liabilities (Note 33)	15	10	34,991	5,125
	2,301	2,085	37,110	5,436
	5	5	10,233	1,499
Current	2,296	2,080	26,877	3,937
Non-current	2,301	2,085	37,110	5,436
Total				

### ***Redeemable convertible preference shares ("RCPS")***

The Series A RCPS issued have the following key terms and conditions:

- (a) Non-cumulative dividend which shall accrue for each Series A RCPS on a daily basis at 0.1% per annum of the amount equivalent to \$0.69 per outstanding Series A RCPS. Series A RCPS rank pari passu with the Series B RCPS and in priority to all other classes of equity securities;
- (b) The Company shall redeem all or part of the Series A RCPS upon the occurrence of any of the relevant redemption events as defined in the debt restructuring agreement ("DRA") entered into by the Company and certain of its subsidiaries with certain of their bankers and other financial lenders on March 16, 2001;
- (c) Upon the passing of a special resolution at a meeting of the holders of the Series A RCPS convened during the conversion period commencing from the date of issue (March 17, 2005) of such Series A RCPS and expiring 10 years thereafter to approve the conversion of all outstanding Series A RCPS, the Company shall convert all (but not some only) of the outstanding Series A RCPS at the conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA; and
- (d) The Company shall redeem all the outstanding Series A RCPS on the tenth anniversary of the issue date of the Series A RCPS.

The Series B RCPS issued have the following key terms and conditions:

- (a) Non-cumulative dividend which shall accrue for each Series B RCPS on a daily basis at 0.1% per annum of the amount equivalent to \$0.16 per outstanding Series B RCPS. Series B RCPS rank pari passu with the Series A RCPS and in priority to all other classes of equity securities;
- (b) The Company shall redeem all or part of the Series B RCPS upon the occurrence of any of the relevant redemption events as defined in the DRA;

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 19. Other financial liabilities (cont'd)

### (a) Other liabilities (current and non-current) (cont'd)

- (c) Upon the passing of a special resolution at a meeting of the holders of the Series B RCPS convened during the conversion period commencing from the date of issue (March 17, 2005) of such Series B preference shares and expiring 5 years thereafter to approve the conversion of all outstanding Series B RCPS, the Company shall convert all (but not some only) of the outstanding Series B RCPS at the conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA; and
- (d) On the market day immediately following the fifth anniversary of the date of issue of the Series B RCPS, all Series B RCPS which remain unconverted or unredeemed shall be mandatorily converted into ordinary shares of the Company at conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA.

### (b) Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	1.1.2008 Rmb'000
<b>Current:</b>			
Renminbi denominated loans	4.08	2008	819,164
US\$ denominated loans	3.01 - 3.24	2008	457,787
			<u>1,276,951</u>
<b>Non-Current:</b>			
Renminbi denominated loans	5.85	2010	85,000
US\$ denominated loans	2.68 - 3.01	2010	225,142
Zero coupon bonds	6.00	2009	2,960
			<u>313,102</u>
	Effective interest rate %	Maturity	31.12.2008 Rmb'000
<b>Current:</b>			
Renminbi denominated loans	4.95	2009	833,000
Singapore dollars denominated loans	2.15	2009	313,448
Zero coupon bonds	6.00	2009	2,284
			<u>1,148,732</u>
<b>Non-Current:</b>			
US\$ denominated loans	1.38	2010	176,756
			<u>176,756</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 19. Other financial liabilities (cont'd)

### (b) Interest-bearing loans and borrowings (cont'd)

	Effective interest rate %	Maturity	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Current:</b>				
Renminbi denominated loans	3.81	2010	434,393	63,631
Singapore dollars denominated loans	2.22	2010	19,399	2,842
			<u>453,792</u>	<u>66,473</u>
<b>Non-Current:</b>				
Renminbi denominated loans	4.86	2012	150,000	21,973
Singapore dollars denominated loans	2.15	2010	293,397	42,978
US\$ denominated loans	1.35	2010	181,859	26,639
			<u>625,256</u>	<u>91,590</u>

Note: The Company has the discretion to refinance or rollover the obligations for at least 12 months after the reporting period for the existing loan facilities.

### US\$50.0 million credit facility with Sumitomo Mitsui Banking Corporation, Singapore Branch ("Sumitomo"):

On September 7, 2005, in order to fund its business expansion plans, the Company entered into a revolving credit facility agreement with Sumitomo with a committed aggregate value of US\$50.0 million for a three years duration. Among other things, the terms of the facility require that Hong Leong Asia Ltd. ("HLA") retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120,000 and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. At all times during the year ended December 31, 2007, the Company was in compliance with these financial covenants. The Company has also undertaken to make available to Sumitomo, within 180 days after the end of its financial year (beginning with financial year 2005), copies of its audited consolidated accounts as at the end of and for that financial year. A waiver from compliance with this undertaking in relation to the production of the 2006 and 2007 audited consolidated accounts has been received from Sumitomo granting an extension of time until July 18, 2008 and September 30, 2008 respectively. On September 6, 2008, this credit facility with Sumitomo expired and the bridging loan as stated in note below was used to partially refinance this facility which was fully repaid.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 19. Other financial liabilities (cont'd)

### **DBS S\$50.0 million bridging loan:**

On August 28, 2008, the Company entered into a bridging loan agreement of up to S\$50 million for a 12 months duration, with DBS Bank Ltd., ("DBS") of Singapore, to partially re-finance the US\$50m revolving credit facility with Sumitomo Mitsui Banking Corporation, Singapore Branch which expired on September 6, 2008. The new facility will also be used to finance the Company's long-term general working capital requirements. The terms of the facility include certain financial covenants as well as negative pledge and default provisions. The Company has also undertaken to make available to DBS, within 180 days after the end of its financial year, copies of its audited consolidated accounts as at the end of each financial year. A waiver from compliance with this undertaking in relation to the production of 2008 audited consolidated accounts has been received from the bank in 2009, granting an extension of time until August 31, 2009.

On August 21, 2009, we entered into a new short-term loan agreement for up to S\$50 million for a 12 months duration with DBS Bank Ltd., ("DBS") of Singapore, to re-finance our existing bridging credit facility with DBS which expired on September 4, 2009. The new facility will be used to finance the Company's long-term general working capital requirements. The terms of the facility include certain financial covenants as well as negative pledge and default provisions. There is an undertaking by the Company to repay S\$2 million every quarter.

### **S\$21.5 million credit facility with Bank of Tokyo-Mitsubishi, UFJ Ltd, Singapore Branch ("BOTM"):**

On March 20, 2008, the Company entered into a new facility agreement with BOTM to re-finance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S\$21.5 million with a one year duration. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that Hong Leong Asia Ltd. ("HLA") retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. On March 19, 2009, this credit facility expired and the new facility with same bank was used to refinance this facility which was fully repaid. The Company has also undertaken to make available to the bank, within 180 days after the end of its financial year, copies of its audited consolidated accounts as at the end of and for that financial year. A waiver from compliance with this undertaking in relation to the production of the 2008 audited consolidated accounts has been received from the bank granting an extension of time until August 31, 2009. On March 17, 2010, the credit facility expired and was refinanced in full with the bank (see Note 38(a)).

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 19. Other financial liabilities (cont'd)

### US\$40.0 million credit facility with Sumitomo:

On March 30, 2007, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US\$40.0 million to refinance the S\$60.0 million facility with Oversea - Chinese Banking Corporation Limited ("OCBC") that was due to mature on July 26, 2007. The facility is available for three years from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of our total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank, within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year. A waiver from compliance with this undertaking in relation to the production of the 2008 audited consolidated accounts has been received from the bank granting an extension of time until August 31, 2009. The credit facility expired on March 30, 2010 and was refinanced for USD30.0 million with the same bank (see Note 38(b)).

## 20. Deferred grants

	1.1.2008	31.12.2008	31.12.2009	31.12.2009
	Rmb'000	Rmb'000	Rmb'000	US\$'000
Balance at beginning of year	—	—	31,514	4,616
Received during the year	—	31,514	150,917	22,107
Released to the income statement	—	—	(3,198)	(468)
Balance at end of year	—	31,514	179,233	26,255
Current	—	31,514	3,198	469
Non-current	—	—	176,035	25,786
Total	—	31,514	179,233	26,255

Government grants have been received for the purchase of certain items of property, plant and equipments.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 21. Inventories

Inventories are comprised of:

	<b>1.1.2008</b> <b>Rmb'000</b>	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Raw materials	942,849	1,653,281	1,056,581	154,771
Work in progress	17,647	17,072	21,481	3,147
Finished goods	686,579	579,691	1,051,964	154,096
<b>Total inventories at the lower of cost and net realisable value</b>	<b>1,647,075</b>	<b>2,250,044</b>	<b>2,130,026</b>	<b>312,014</b>

Inventories recognized as an expense in cost of sales amounted to Rmb 7,490,254 and Rmb 9,567,280 (US\$1,401,450) in the year ended December 31, 2008 and December 31, 2009 respectively.

	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Balance at beginning of year	88,439	136,256	19,959
Charge to consolidated statements of income	52,747	154,700	22,661
Written off	(4,930)	(4,009)	(587)
	<b>136,256</b>	<b>286,947</b>	<b>42,033</b>

The amount of write-down of inventories recognized as an expense and included in "cost of sales" amounted to Rmb 52,747 and Rmb 154,700 (US\$22,661) in year ended December 31, 2008 and December 31, 2009 respectively.

As at December 31, 2009, YMMC had consigned finished goods inventory balance of Rmb nil (US\$ nil) (2008: Rmb 3,627) with the customers.

## 22. Other current financial assets

	<b>1.1.2008</b> <b>Rmb'000</b>	<b>31.12.2008</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2009</b> <b>US\$'000</b>
Properties held for sale	110,344	96,293	91,202	13,360

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 23. Trade and bills receivables

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Trade receivables (net)	716,500	397,296	389,659	57,079
Bills receivables	2,392,744	2,140,839	2,117,042	310,112
	<u>3,109,244</u>	<u>2,538,135</u>	<u>2,506,701</u>	<u>367,191</u>

Trade receivables (net) are non-interest bearing and are generally on 60 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

As of January 1, 2008, December 31, 2008 and December 31, 2009, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled Rmb 171,221, Rmb 1,214,497 and Rmb 3,179,737 (US\$465,780) respectively.

An analysis of the allowance for doubtful accounts is as follows:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Balance at beginning of year	65,013	96,147	14,083
Add:			
Charge (credit) to consolidated statements of income	32,943	(15,552)	(2,278)
Less:			
Written off	(1,802)	(3,947)	(578)
Translation differences	(7)	(2)	—
	<u>96,147</u>	<u>76,646</u>	<u>11,227</u>

At December 31, 2008 and 2009, gross trade accounts receivable due from a major customer, Dongfeng Automobile Company and its affiliates ("the Dongfeng companies") were Rmb 119,513 and Rmb 271,209 (US \$39,728), respectively. See Note 35 for further discussion of customer concentration risk.

	Total Rmb'000	Neither past due nor impaired Rmb'000	0-90 days Rmb'000	91-180 days Rmb'000	181-365 days Rmb'000	>365 days Rmb'000
As at 31.12.2009	2,506,701	2,438,348	66,888	19	168	1,278
As at 31.12.2008	2,538,135	2,530,044	6,898	707	50	436
As at 1.1.2008	<u>3,109,244</u>	<u>2,559,389</u>	<u>275,060</u>	<u>184,530</u>	<u>10,838</u>	<u>79,427</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 24. Other receivables (current)

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
GST/VAT Recoverable	8,178	70,910	83,825	12,279
Staff advances	8,071	1,590	7,394	1,083
Amounts due under guarantee contracts, net (see Note 33)	20,162	15,382	12,557	1,839
Land deposit	5,000	5,000	5,000	733
Recoverable from Malkn Sdn Bhd <sup>(i)</sup>	35,122	22,671	—	—
Associates	17,373	91,027	44,662	6,542
Other related parties	145,702	53,894	20,310	2,975
Other deposits	—	10,000	—	—
Loan to customers	3,361	—	—	—
Interest receivables	—	—	5,176	758
Custom tax refund	—	2,057	11,018	1,614
Others	17,357	30,781	23,921	3,504
Impairment losses - other receivables <sup>(ii)</sup>	(57,036)	(79,626)	(32,313)	(4,733)
	<u>203,290</u>	<u>223,686</u>	<u>181,550</u>	<u>26,594</u>

### Note:

(i) Recoverable from Malkn Sdn Bhd., a subsidiary of HLGE, which is currently under creditors' liquidation.

(ii) An analysis of the impairment losses - other receivables is as follows:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Balance at beginning of year	94,177	79,626	11,664
Add:			
Charge (credit) to consolidated statements of income	(7,598)	(28,506)	(4,176)
Less:			
Written off	(5,332)	(19,314)	(2,829)
Translation differences	(1,621)	507	74
	<u>79,626</u>	<u>32,313</u>	<u>4,733</u>

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 25. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Cash at banks and on hand	759,837	823,695	3,657,981	535,834

Cash at banks earn interest at floating rates based on daily bank deposit rates. Cash and cash equivalents denominated in various currencies are held in bank accounts in the Singapore and China.

At January 1, 2008, December 31, 2008 and December 31, 2009, the Group had available Rmb 2,658,071, Rmb 3,639,724 and Rmb 3,875,020 respectively (US\$567,627) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2008 and 2009 were Rmb 138 and Rmb 104 (US\$15) respectively.

## 26. Issued capital and reserves

	1.1.2008 thousands	31.12.2008 thousands	31.12.2009 thousands	31.12.2009 thousands
<b>Authorised shares</b>				
Ordinary shares of US\$0.10 each	100,000	100,000	100,000	100,000
	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Ordinary shares issued and fully paid</b>				
37,267,673 ordinary shares issued and fully paid at US\$0.10 per share	1,724,196	1,724,196	1,724,196	252,567
	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Non-redeemable convertible cumulative preference shares ("NCCPS")	36	36	36	5

HLGE issued 197,141,190 NCCPS at an issue price of S\$0.02 each on July 4, 2006, expiring on the 10th anniversary of the NCCPs issue date.

The NCCPS shall, subject to the terms and conditions thereof, carry the right to receive, out of the profits of HLGE available for payment of dividends, a fixed cumulative preferential dividend of 10% per annum of the issue price for each NCCPS (the "Preference Dividend").

Other than the Preference Dividend, the NCCPS holders shall have no further right to participate in the profits or assets of HLGE.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 26. Issued capital and reserves (cont'd)

NCCPS holders shall have no voting rights except under certain circumstances referred to in the Companies Act, Chapter 50 of Singapore set out in the terms of the NCCPS.

The NCCPS are not listed and quoted on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). However, the holders of the NCCPs are able to exercise their rights to convert the NCCPS into new ordinary shares at a 1 for 1 ratio, subject to the terms and conditions of the NCCPS. Such new ordinary shares will be listed and quoted on the Official List of the SGX-ST when issued.

## 27. Dividends paid and proposed

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Declared and paid during the year:			
Dividends on ordinary shares:			
Interim dividend for 2008 <b>US\$0.10</b> cents (2007: <b>US\$0.10</b> cents)	25,886	—	—
Interim dividend for 2009: <b>US\$0.10</b> cents (2008: <b>US\$0.10</b> cents)	—	25,457	3,729
	25,886	25,457	3,729

On March 5, 2010, the Company declared a dividend of US\$0.25 per share or US\$9.3 million in total dividend, payable on March 30, 2010.

## 28. Statutory reserves

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
<b>Statutory general reserve</b> (see Note (ii))				
Balance at January 1	171,280	174,033	176,126	25,800
Transfer from retained earnings	2,753	2,093	4,213	617
Balance at end of year	174,033	176,126	180,339	26,417
<b>Statutory public welfare fund</b> (see Note (iii))				
Balance at January 1	70,600	70,600	85,641	12,545
Transfer from retained earnings (see Note (iv))	—	15,041	—	—
Balance at end of year	70,600	85,641	85,641	12,545
<b>General surplus reserve</b>				
Balance at January 1 and December 31	25,706	25,706	25,706	3,765
Balance at end of year	270,339	287,473	291,686	42,727

### Notes:

- (i) In accordance with the relevant regulations in the PRC, Yuchai and its subsidiaries are required to provide certain statutory reserves which are designated for specific purposes based on the net income reported in the PRC GAAP financial statements. The reserves are not distributable in the form of cash dividends.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 28. Statutory reserves (cont'd)

- (ii) In accordance with the relevant regulations in the PRC, a 10% appropriation to the statutory general reserve based on the net income reported in the PRC financial statements is required until the balance reaches 50% of the authorized share capital of Yuchai and its subsidiaries. Statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to stockholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the authorized share capital.
- (iii) Yuchai and its subsidiaries shall determine to transfer 5% to 10% of its net income reported in the PRC financial statements to the statutory public welfare fund. There is no limit on the amount that may be allocated to this fund. This fund can only be utilized on capital expenditure for the collective welfare of Yuchai and its subsidiaries' employees, such as the construction of dormitories, canteen and other welfare facilities, and cannot be utilized to pay staff welfare expenses. The transfer to this fund must be made before the distribution of a dividend to stockholders. Since January 1, 2006, in accordance with the amended Company's policy, the contribution to the fund ceased.
- (iv) In 2008, an amount of Rmb 15,041 was transferred back to the Statutory Public Welfare Fund as the payable was no longer required.

## 29. Trade and other payables (current)

	<b>1.1.2008</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2009</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Trade payables	2,517,902	2,619,136	4,749,651	695,746
Other payables	789,743	746,286	1,284,645	188,180
Deferred income	—	31,514	3,198	468
Interest payable	—	1,831	2,498	366
Immediate holding company	5,278	451	362	53
Associates	—	43,861	—	—
Other related parties	380,521	161,049	149,892	21,957
Balance at end of year	<u>3,693,444</u>	<u>3,604,128</u>	<u>6,190,246</u>	<u>906,770</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of six months.
- Interest payable is normally settled throughout the financial year.
- For terms and conditions relating to related parties, refer to Note 32.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 30. Provision for product warranty

	1.1.2008 Rmb'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Balance at beginning of year	163,701	194,898	188,599	27,626
Provision made	233,838	215,544	368,284	53,948
Less: Provision utilised	(202,641)	(221,843)	(297,349)	(43,557)
Balance at end of year	194,898	188,599	259,534	38,017

## 31. Deferred gain and gain on acquisition of Guangxi Yulin Hotel Company Ltd in settlement of past loan

The amount represents the recognition of specific impairment provisions totaling Rmb 202,950 on the loans with an aggregate principal amount of Rmb 205 million due from Yuchai Marketing Company Limited ("YMCL") as of December 31, 2005. YMCL is wholly owned by Coomber Investment Limited ("Coomber"), a shareholder of the Company and State Holding Company (collectively, the "Chinese Shareholders").

In March and May 2004, Yuchai granted interest-free advances to YMCL at the request of Yuchai's PRC directors to provide YMCL with initial working capital for its start-up activities. YMCL was set up with the intention of offering a complementary range of services including spare parts distribution, insurance, vehicle financing and warranty servicing. These advances were provided with the approval of the previous Chairman of Yuchai but without prior approval by the majority of the shareholders of Yuchai.

On December 2, 2004, these advances were converted into formal loans and written agreements and were executed between Yuchai and YMCL through an authorized financial institution in the PRC. Under the terms of the loan agreements, the loans were payable in their entirety on December 2, 2005 and interest, at the rate of 5.58% per annum, was payable on a monthly basis. Further, the loans were secured by guarantees given by the Chinese Shareholders. Interest income of Rmb 10,512, Rmb 11,548 and Rmb 4,224 (US\$618) was received and recognised in 2006, 2007 and 2008, respectively.

Because the loans had already been disbursed, the Chinese Shareholders had issued guarantees for these loans, and the Company's relationship with the Chinese Shareholders was improving, the Directors of Yuchai believed that it was in the Company's and Yuchai's best interest to ratify the loans. Consequently, the loans were ratified by the Board of Directors of Yuchai in April 2005.

In 2005, the Company discussed with the Chinese Shareholders the possibility of converting the loans into an equity investment in YMCL, subject to the Yuchai board's approval. This potential alternative was incorporated within the terms of the reorganization agreement entered into by the Company with Yuchai and Coomber on April 7, 2005 ("Reorganization Agreement").

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 31. Deferred gain and gain on acquisition of Guangxi Yulin Hotel Company Ltd in settlement of past loan (cont'd)

When the loans became due in December 2005, Yuchai was requested to extend the maturity date for the loans. However, the Company and Yuchai had been unable to access the financial statements of YMCL. Consequently, the Directors from the Company's and Yuchai's boards had doubts about YMCL's ability to repay the loans. However, the Company's and Yuchai's board of directors considered the request to extend the loans based on representations received from the Chinese Shareholders and management of YMCL concerning their respective abilities and intentions to repay the loans and honor their guarantees, and therefore agreed to extend the repayment date of the loans for an additional year. The extension of the loans was approved by the Board of Directors of Yuchai on December 2, 2005. An agency bank was appointed under PRC requirements to administer the Rmb 205 million loans and the legal method requires such loans to be repaid and the funds re-disbursed. The new loans carry the same terms, including scheduled maturity on December 1, 2006. New guarantees were also granted by the Chinese Shareholders for these loans. The maturity date of the loans was subsequently extended to June 1, 2007 and further extended to May 30, 2008.

The Company discussed this matter with the Chinese Shareholders and management of YMCL and also considered the financial position and financial resources of the State Holding Company and Coomber. CYI management made an assessment of the future cash flows of the State Holding Company and Coomber and concluded that it was likely they will not be able to honor their respective guarantees in the event YMCL is unable to repay the loans when they become due.

Consequently, at that time, CYI management identified a number of possible courses of action in the event YMCL is unable to repay the loans when they become due. These actions included:

- Taking actions to force YMCL to liquidate;
- Retaining portions of future dividends declared by Yuchai and payable to State Holding Company until the guarantee obligations are fulfilled; and
- Commencing legal action against YMCL and possibly the Chinese Shareholders.

The Company's management ruled out any form of legal or other enforcement action against the Chinese Shareholders as management believed that Yuchai may not be the first preferred creditor entitled to receive payment of the judgment debt. Moreover, management believed that the process for enforcement of a judgment in China is complex and not as effective when compared with other jurisdictions. In addition, management believed that the commencement of legal or other enforcement actions would likely lead to a deterioration in relations with the Chinese Shareholders which could have a materially adverse impact on the Company's investment in Yuchai and could lead to the impairment of shareholder value of the Company. Consequently, management believed that it was beneficial to the Company's shareholders for management to continue their dialogue and seek other possible arrangements with YMCL, Coomber and State Holding Company to resolve the repayment of the Rmb 205 million loans rather than for it to resort to legal and enforcement actions described above.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 31. Deferred gain and gain on acquisition of Guangxi Yulin Hotel Company Ltd in settlement of past loan (cont'd)

In July 2007, Yuchai's Board of Directors agreed in principle to a proposal by the State Holding Company to settle the loans due from YMCL, along with various other accounts receivable from YMCL (collectively, the "receivables"), by forgiving the receivables in exchange for the transfer of 100% of the equity ownership in a hotel in Yulin, PRC and YMCL's central office building in Guilin, PRC. On December 25, 2007, Yuchai, pursuant to the execution of a share transfer contract with YMCL, Coomber and State Holding Company, acquired all the outstanding share capital of Guangxi Yulin Hotel Company Ltd ("Yulin Hotel Company") for Rmb 245.6 million. As of January 1, 2008, the purchase consideration for this acquisition had not been settled and is included in "Amounts due to related parties" on the consolidated balance sheet. Agreements were entered into by Yuchai on March 31, 2008 to effect the repayment of the Rmb 205 million loans against the liability of Rmb 245.6 million arising from the purchase of 100% equity interest in Yulin Hotel Company with the balance settled through offset of certain trade receivables due from YMCL, the Guarantors and other related parties. Under the terms of these agreements, Yuchai's purchase price obligation of Rmb 245.6 million was legally extinguished through the offsetting of this liability.

As of January 1, 2008 and December 31, 2008, the transfer of the 100% equity interest in Yulin Hotel Company was subject to approval from the provincial government regulatory agency in charge of state-owned assets administration in China. Yuchai's Board of Directors and shareholders had approved an extension of time for obtaining of approval from November 30, 2008 to June 30, 2009 failing which, Yuchai would have had the right to sell to the State Holding Company, who would have been obligated to buy, 100% of the equity in Yulin Hotel Company at the original purchase price of Rmb 245.6 million. This condition is contained in a guarantee letter provided by the original shareholders of Yulin Hotel Company. However, management of the Company was uncertain whether State Holding Company had the financial ability to purchase Yulin Hotel Company for the full contractual amount of Rmb 245.6 million. Consequently, no recovery of the previously recorded impairment loss on the loans due from YMCL was recognized in the Company's consolidated financial statements as of December 31, 2008 and the provision against the loan was reclassified as a deferred gain in the balance sheet. Such recovery was recognized in the Company's consolidated financial statements on January 13, 2009, when Yuchai received approval from the provincial government regulatory agency in charge of state-owned assets administration in China for its acquisition of the 100% equity interest in Yulin Hotel Company. Upon receipt of approval from the provincial government, the gain was recognized in the Statement of Income in 2009.

## 32. Related party disclosures

### *The ultimate parent*

Our controlling shareholder, HLA, indirectly owns 10,248,013, or 27.5%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. HLA controls us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 21.0% of the outstanding shares of our Common Stock and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 6.48% of the outstanding shares of our Common Stock. HLA is a member of the Hong Leong Investment Holdings Pte Ltd., or Hong Leong Investment, group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, or Diesel Machinery, which, until its dissolution, was a holding company controlled by Hong Leong China and was the prior owner of the special share. Through HL Technology's stock ownership and the rights accorded to the Special Share under our bye-laws and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of Rmb 470 (US\$69) and Rmb 6,414 during the financial years ended December 31, 2009 and December 31, 2008 respectively.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 32. Related party disclosures (cont'd)

### Entity with significant influence over the Group

The Yulin City Government through Coomber Investment Ltd owns 18% of the ordinary shares in the Company (2008: 18%).

The following provides the total amount of transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2009 and 2008, refer to Notes 24 and 29):

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Sales of diesel engines to State Holding Company, its subsidiaries and affiliates (See Note (i))	196,997	338,094	49,525
Sales of raw materials to YMCL (See Note (i))	—	232,560	34,066
Sales to affiliates (See Note (i))	18,067	61,521	9,012
Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company (see Note (i))	(1,013,106)	(1,509,950)	(221,183)
Purchases of raw materials and supplies from affiliates (see Note (i))	(17,781)	(94,236)	(13,804)
Delivery expense charged by a subsidiary of YMCL (See Note (ii))	(161,036)	(210,129)	(30,780)
Storage expense charged by a subsidiary of SHC (See Note (iii))	—	(58,667)	(8,594)
General and administrative expenses			
— charged by State Holding Company (see Note (iv))	(34,934)	(35,857)	(5,252)
— charged by HLA (see Note (v))	(6,758)	(6,828)	(1,000)
— charged by an affiliate of HLA (see Note (vi))	(6,760)	(8,124)	(1,190)

### Note:

- (i) Sale and purchase of raw materials, supplies, scraps and diesel engines to/from State Holding Company, its subsidiaries and affiliates. Certain subsidiaries and affiliates of State Holding Company have acted as suppliers of raw materials and supplies to the Company and certain subsidiaries of State Holding Company have acted as sales agents of the Group. The State Holding Company also purchased scraps from the Group. State Holding Company's subsidiaries and affiliates include YMCL. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms.
- (ii) Delivery expense charged by YMCL and its subsidiaries. The fee is for the delivery of spare parts charged by YMCL, which were recorded in "Cost of goods sold" and "Selling, general and administrative expenses" respectively. Management considers that these transactions were entered into in the normal course of business and these transactions continued on normal commercial terms.
- (iii) Storage expenses charged by subsidiary of SHC for the storage of engines components and parts for Yuchai and delivery to the production facilities as required.
- (iv) General and administrative expenses charged by State Holding Company State Holding Company charges Yuchai for certain general and administrative expenses in respect of rental of certain office premises, property management services rendered by State Holding Company. The expenses are charged to Yuchai and its subsidiaries by State Holding Company on an actual incurred basis. Management believes that the expenses charged to Yuchai by State Holding Company would not have been materially different on a stand-alone basis because Yuchai could provide these services for itself at approximately the same amount.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 32. Related party disclosures (cont'd)

### Entity with significant influence over the Group (cont'd)

- (v) Management fees, general and administrative expenses charged by HLA.
- (vi) General and administrative expenses charged by affiliates of HLA. The fees mainly relate to office rental, secretarial fees, insurance fees, professional and consultancy fees, and miscellaneous office expenses.

In addition to the above, Yuchai also entered into transactions with other PRC Government owned enterprises. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms. Balances with other PRC entities are excluded from this caption.

Amounts due to the holding company comprise mainly general and administrative expenses charged by the holding company in relation to the management, financial planning and control and other services provided to Yuchai. The balance is unsecured, interest free and repayable on demand.

### Compensation of key management personnel of the Group

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Short term employee benefits	24,773	25,992	3,807

The non-executive directors do not receive pension entitlements from the Group.

## 33. Commitments and contingencies

### Operating lease commitments — Group as lessee

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Within one year	10,538	9,007	1,319
After one year but not more than five years	12,122	7,968	1,168
	22,660	16,975	2,487

The minimum lease payments recognized as an expense in the period ended December 31, 2008 and December 31, 2009 respectively amounted to Rmb 24,306 and Rmb 46,092 (US\$6,752).

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 33. Commitments and contingencies (cont'd)

### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's surplus office and manufacturing buildings. These non-cancellable leases have remaining terms of between 6 and 50 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Within one year	3,106	5,998	879
After one year but not more than five years	7,921	16,522	2,420
More than five years	843	515	75
	11,870	23,035	3,374

### Finance lease commitments

The Group has finance leases for various items of plant and machinery. Except for leases under sale and leaseback arrangement described below, these leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	31.12.2009	
	Minimum payments	Present value of payments
Within one year	11,397	9,748
After one year but not more than five years	30,604	25,243
Total minimum lease payments	42,001	34,991
Less amounts representing finance charges	7,010	—
Present value of minimum lease payments	34,991	34,991

There were no material finance leases as at January 1, 2008 and December 31, 2008. The finance lease was entered into by Yuchai's subsidiary, YAMC during the year.

### Letter of credits

As of December 31, 2008 and 2009, Yuchai had issued irrevocable letter of credits of Rmb 64.9 million and Rmb 60.9 (US\$8.9 million), respectively.

### Sale and leaseback

During the year ended December 31, 2009, in order to fund its business expansion plan in the current year, YAMC sold 912 equipments to CBD Leasing Company Limited for Rmb 40 million. These equipments were the major production machinery of YAMC. The lease agreements include a buy back provision which allows YAMC to purchase the assets at the end of the lease term. The equipments were leased back for approximately Rmb 48,672 and accounted for as the assets owned by YAMC at the present value of the minimum lease payment of Rmb 40,058. Depreciation was provided by the management on a straight-line basis over the useful life of the assets.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 33. Commitments and contingencies (cont'd)

### ***Product liability***

The General Principles of the Civil Law of China and the Industrial Product Quality Liability Regulations imposes that manufacturers and sellers are liable for loss and injury caused by defective products. Yuchai and its subsidiaries do not carry product liability insurance. Yuchai and its subsidiaries have not had any significant product liability claims brought against them.

### ***Environmental liability***

China adopted its Environmental Protection Law in 1989, and the State Council and the State Environmental Protection Agency promulgate regulations as required from time to time. The Environmental Protection Law addresses issues relating to environmental quality, waste disposal and emissions, including air, water and noise emissions. Environmental regulations have not had a material impact on Yuchai's results of operations. Yuchai delivers, on a regular basis, burned sand and certain other waste products to a waste disposal site approved by the local government and makes payments in respect thereof. Yuchai expects that environmental standards and their enforcement in China will, as in many other countries, become more stringent over time, especially as technical advances make achievement of higher standards more feasible. Yuchai has built an air filter system to reduce the level of dust and fumes resulting from its production of diesel engines. The PRC emission standard equivalent to Euro III is implemented throughout China from 2008.

In addition, emission standard equivalent to Euro I was implemented on August 31, 2004. After that date, the engines equipped with Euro I engines cannot be sold and used in major urban area. The manufacture and sale of Euro II engines is expected to be progressively phased out starting June 30, 2008 and the PRC emission standard equivalent to Euro III has been implemented progressively throughout China from July 1, 2008. There can be no assurance that Yuchai will be able to comply with these emission standards or that the introduction of these and other environmental regulations will not result in a material adverse effect on our business, financial condition and results of operations.

Yuchai is subject to Chinese national and local environmental protection regulations which currently impose fees for the discharge of waste substances, require the payment of fines for pollution, and provide for the closure by the Chinese government of any facility that fails to comply with orders requiring Yuchai to cease or improve upon certain activities causing environmental damage. Due to the nature of its business, Yuchai produces certain amounts of waste water, gas, and solid waste materials during the course of its production. Yuchai believes its environmental protection facilities and systems are adequate for it to comply with the existing national, provincial and local environmental protection regulations. However, Chinese national, provincial or local authorities may impose additional or more stringent regulations which would require additional expenditure on environmental matters or changes in our processes or systems.

### ***Dispute with Bank of China***

In 2003, the Yulin Branch of Bank of China ("BOC") initiated legal proceedings to recover Rmb 6,603 from Yuchai based on an irrevocable letter of guarantee issued by Yuchai to the BOC in 1993 to secure a loan of US\$550 to Great Wall Machinery Plant ("Great Wall"). At trial, a Yulin court ruled that if Great Wall could not pay the loan, Yuchai would be liable to pay the guaranteed sum to the BOC. Yuchai appealed unsuccessfully.

In January 2004, the State Holding Company issued a letter of commitment confirming that it would reimburse Yuchai in the event that Yuchai was required to pay on this guarantee.



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 33. Commitments and contingencies (cont'd)

### *Dispute with Bank of China (cont'd)*

Based on the advice from the Company's Legal Counsel, the Company has recorded a loss contingency equal to the amount of the claim. The amounts due to the BOC and from the State Holding Company have been recorded in "Accrued expenses and other liabilities" and "Amounts due from related parties", respectively.

In 2008 and 2009, there was no new development in this case.

### *Guarantees*

YEGCL provides guarantees of loans granted by commercial banks in the PRC to unrelated third-party individuals who have obtained the loans to purchase automobiles equipped with diesel engines produced by Yuchai. During the years ended December 31, 2005 and 2006, YEGCL guaranteed new borrowings of Rmb 153,538 and Rmb 88,991, respectively. YEGCL ceased issuing guarantees on new borrowings from late 2006. The guarantees cover the entire principal amount of the loan, which generally has a term of one to two years with equal monthly or quarterly installment payments by the borrower. The guarantees are secured by cash deposits from the individual to YEGCL and by the automobile. In the event of defaults on payment, YEGCL would be required under its guarantee to make payments to the banks on behalf of the borrowers.

In return for issuing the guarantee, YEGCL receives a premium fee ranging from 1% to 3% of the loan amount for the years ending December 31, 2008 and 2009, respectively, which is considered to be the fair value of YEGCL's guarantee at its inception and is recorded as a liability in accordance with the provisions of IAS 39. The Group received Rmb nil of premium fees in 2008 and 2009, respectively, which are included in "Accrued expenses and other liabilities" and recognized as revenue on a straight line basis over the terms of the respective guarantee. Guarantee fees recognized as revenue in 2008 and 2009 amounted to Rmb 628 and Rmb 54 (US\$8), respectively. As of January 1, 2008, December 31, 2008 and December 31, 2009, deferred guarantee fee revenue amounted to Rmb 682, Rmb 54 and Rmb nil (US\$nil), respectively.

Subsequent to initial measurement and recognition of the liability for YEGCL's obligations under with these loan guarantees, management evaluates YEGCL's guarantee portfolio and accounts for potential loss contingencies associated with the guarantees based on the estimated losses resulting from known and expected defaults. Each guarantee is secured by a cash deposit from the borrower and a security interest in the automobile purchased by the borrower. As of December 31, 2008 and 2009, YEGCL had gross receivables of Rmb 15,382 and Rmb 12,557 (US\$1,839), respectively, relating to payments made by YEGCL to the banks in conjunction with loans that had been defaulted and to be recovered from the individual borrowers. YEGCL recorded a bad debt allowance in the amount of Rmb 12,209 and Rmb 12,273 (US\$1,798) for other receivables, and Rmb 1,409 and Rmb 236 for potential losses associated with the guarantee at December 31, 2008 and 2009 respectively. The net receivables amount of Rmb 3,173 and Rmb 284 (US\$42), is included in "Other receivables, net" in the accompanying consolidated balance sheets (See Note 24).

As of December 31, 2008 and 2009, the maximum potential amount of future undiscounted payments YEGCL could be required to make under the guarantees was Rmb 16,643 and Rmb 12,050 (US\$1,765), respectively. YEGCL held cash deposits of Rmb 2,596 and Rmb 1,237 (US\$181) as of December 31, 2008 and 2009 and security interests in automobiles with an aggregate initial purchase value of Rmb 351,566 and Rmb 181,164 (US\$26,538) as of December 31, 2008 and 2009, respectively. If, in the event of default the cash deposits and the amount of recoveries, if any, from repossession of the automobiles may not entirely mitigate YEGCL's losses then, YEGCL accumulates the total expected risk against the total expected recoverable amount and provides for any expected shortfall. Accordingly, management recorded an accrual for potential losses associated with the guarantees in the amount of Rmb 1,409 and Rmb 236 (US\$35) as of December 31, 2008 and 2009, respectively, included in "Accrued expenses and other liabilities".



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 34. Segment information

For management purposes, the group is organised into business units based on their products and services, and has three reportable operating segments as follows:

- Yuchai primarily conducts manufacturing and sale of diesel engines which are mainly distributed in the PRC market.
- The TCL group primarily conducts distribution of consumer electronic products with operations mainly in the PRC (including Hong Kong). TCL also has other business activities relating to contract manufacturing, property development and investment in the PRC. This segment has been classified as a discontinued operation during the financial year.
- The HLGE group is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia.

HLGE and TCL are each listed on the Main Board of the Singapore Exchange Securities Trading Limited.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Year ended December 31, 2009	Yuchai Rmb'000	HLGE Rmb'000	TCL (Discontinued) Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
<b>Revenue</b>					
External customers	13,161,087	14,816	—	—	13,175,903
Inter-segment	—	—	—	—	—
<b>Total revenue</b>	13,161,087	14,816	—	—	13,175,903
<b>Results</b>					
Interest income	29,674	1,788	—	107 <sup>(1)</sup>	31,569
Interest expense	(72,069)	(21,160)	—	15,736 <sup>(1)</sup>	(77,493)
Goodwill impairment	—	—	—	—	—
Impairment of property, plant and equipment	(7,785)	—	—	—	(7,785)
Depreciation and amortisation	(275,240)	(2,659)	—	(7,415) <sup>(2)</sup>	(285,314)
Share of profits of associates	2,714	240	—	—	2,954
Share of losses of joint ventures	(83)	(15,917)	—	—	(16,000)
Income tax (expense)/credit	(130,430)	702	—	(17,495) <sup>(3)</sup>	(147,223)
<b>Segment profit</b>	1,027,837	(24,323)	—	(36,846) <sup>(4)</sup>	966,668
<b>Total assets</b>	11,905,224	521,469	321,487	557,731 <sup>(5)</sup>	13,305,911
<b>Total liabilities</b>	7,333,157	596,377	—	(33,413) <sup>(6)</sup>	7,896,121
<b>Other disclosures</b>					
Investment in associates	5,615	34,029	—	—	39,644
Investment in joint ventures	67,418	129,570	—	—	196,988
Capital expenditure	734,555	46,778	—	—	781,333

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 34. Segment information (cont'd)

Year ended December 31, 2008	Yuchai Rmb'000	HLGE Rmb'000	TCL (Discontinued) Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
<b>Revenue</b>					
External customers	10,384,022	20,766	—	—	10,404,788
Inter-segment	—	—	—	—	—
<b>Total revenue</b>	10,384,022	20,766	—	—	10,404,788
<b>Results</b>					
Interest income	8,623	5,153	—	1,452 <sup>(1)</sup>	15,228
Interest expense	(134,245)	(36,497)	—	20,333 <sup>(1)</sup>	(150,409)
Goodwill impairment	(5,675)	—	—	—	(5,675)
Impairment of property, plant and equipment and prepaid operating assets	(69,930)	—	—	—	(69,930)
Depreciation and amortisation	(262,633)	(2,381)	—	(7,614) <sup>(2)</sup>	(272,628)
Share of profits of associates	1,761	956	—	—	2,717
Share of profits of joint ventures	—	13,692	—	—	13,692
Income tax (expense)/credit	(95,249)	5	—	(15,282) <sup>(3)</sup>	(110,526)
<b>Segment profit</b>	507,777	(4,388)	—	(21,647) <sup>(4)</sup>	481,742
<b>Total assets</b>	8,539,153	595,329	—	833,162 <sup>(5)</sup>	9,967,644
<b>Total liabilities</b>	4,770,199	639,874	—	(57,388) <sup>(6)</sup>	5,352,685
<b>Other disclosures</b>					
Investment in associates	7,261	33,896	287,443	—	328,600
Investment in joint ventures	—	164,979	—	—	164,979
Capital expenditure	728,572	2,099	—	—	730,671

As at January 1, 2008	Yuchai Rmb'000	HLGE Rmb'000	TCL (Discontinued) Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
Total assets	7,845,506	747,744	—	1,239,389 <sup>(5)</sup>	9,832,639
Total liabilities	4,419,576	805,789	—	267,400 <sup>(6)</sup>	5,492,765
<b>Other disclosures</b>					
Investment in associates	4,431	36,657	411,679	—	452,767
Investment in joint ventures	—	160,125	—	—	160,125

(1.) Included here are interest income and expense of the holding entity's interest income and expense and inter-segment interest income and expense are eliminated on consolidation.

(2.) Included here are the depreciation of the holding entity's fixed assets and additional depreciation on HLGE's investment property and property, plant and equipments valued at fair value in excess of costs.

(3.) This relates mainly to the withholding tax provisions for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai that has not been remitted.

(4.) Profit for each operating segment does not include income tax expense and (loss)/profit after tax for the year from discontinued operations.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 34. Segment information (cont'd)

- (5.) Segment assets included goodwill and other assets of holding entity and increase in value of HLGE's property, plant and equipment based on fair value in excess of costs.
- (6.) Segment liabilities consist of the liabilities of the holding entity.

### Geographic information

Revenues from external customers:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
China	10,359,511	13,162,087	1,928,030
Other countries	45,277	13,816	2,024
<b>Total</b>	<b>10,404,788</b>	<b>13,175,903</b>	<b>1,930,054</b>

The revenue information above is based on the location of the customer.

Revenue from one customer group amounted to Rmb 2,496,199 (US\$365,652) (2008: Rmb 1,941,102), arising from sales by Yuchai segment.

### Non-current assets

	1.1.2008	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
China	1,498,696	1,563,006	2,224,210	325,810
Other countries	1,743,482	1,727,684	1,721,403	252,158
<b>Total</b>	<b>3,242,178</b>	<b>3,290,690</b>	<b>3,945,613</b>	<b>577,968</b>

Non-current assets for this purpose consist of property, plant & equipment, prepaid operating leases, investment joint ventures, investment properties and goodwill.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 35. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has loan, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to market risk, credit risk and liquidity risk.

### **Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

### **Interest rate risk**

The primary source of the Group's interest rate risk relates to interest bearing bank deposits and its borrowings from banks and financial institutions. The interest bearing borrowings of the Group are disclosed in Note 19 to the financial statements. As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

The Group manages its interest rate risk by having a mixture of fixed and variable rates for its deposits and borrowings.

### *Interest rate sensitivity*

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest bearing financial liabilities at the end of the reporting period and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used and represents management's assessment of the possible change in interest rates.

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2009 of the Group would increase/decrease by Rmb 12.9 million (US\$1.9 million) (2008 : profit decrease/increase by Rmb 2.5 million).

### **Foreign currency risk**

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily the Singapore dollar, Ringgit Malaysia, Chinese Renminbi and United States dollar.

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimising the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 35. Financial risk management objectives and policies (cont'd)

### Foreign currency risk (cont'd)

The Group's exposures to foreign currency are as follows:

Group	December 31, 2008				
	Singapore Dollar RMB'000	Euro Dollars RMB'000	United States Dollar RMB'000	Chinese Renminbi RMB'000	Others RMB'000
Other investments	—	—	—	—	—
Trade and other receivables	—	11	119,155	33,613	—
Cash and cash equivalents	758	—	6,047	—	—
Financial liabilities	(491,725)	—	—	—	—
Trade and other payables	(72,433)	(908)	(98,711)	(1,418)	(2,827)
In RMB'000	(563,400)	(897)	26,491	32,195	(2,827)
In US\$'000	(82,529)	(131)	3,880	4,716	(414)

Group	December 31, 2009				
	Singapore Dollar RMB'000	Euro Dollars RMB'000	United States Dollar RMB'000	Chinese Renminbi RMB'000	Others RMB'000
Other investments	326,058	—	—	—	—
Trade and other receivables	374	9,171	135,981	32,464	—
Cash and cash equivalents	78,372	253	2,636	—	22
Financial liabilities	(492,752)	—	—	—	—
Trade and other payables	(66,889)	—	(55,095)	(1,446)	(19)
In RMB'000	(154,837)	9,424	83,522	31,018	3
In US\$'000	(22,681)	1,380	12,235	4,544	—

### Foreign currency risk sensitivity

A 10% strengthening of the following major currencies against the functional currency of each of the Group's entities at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
	Profit before tax	Profit before tax	Profit before tax
Singapore dollar	(56,340)	(15,484)	(2,268)
Euro dollar	(90)	942	138
United States dollar	2,649	8,352	1,224
Chinese Renminbi	3,220	3,102	454

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 35. Financial risk management objectives and policies (cont'd)

### Equity price risk

The Group has investment in TCL which is quoted.

#### Equity price risk sensitivity

A 10% increase/(decrease) in the underlying prices at the reporting date would increase/(decrease) equity by the following amount:

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Equity	—	907	133

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and loan notes) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risks related to receivables: Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistic for similar financial assets.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At December 31, 2009, the Group had approximately top 20 customers (2008: top 20 customers) that owed the Group more than Rmb 273 million (US\$40 million) and accounted for approximately 70% (2008: 56%) of accounts receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 22 customers (2008: 35 customers) with balances greater than Rmb 1 million (US\$0.1 million) accounting for just over 81.0% (2008: 79.9%) of total accounts receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 23. The Group does not hold collateral as security.

Cash and fixed deposits are placed with banks and financial institutions which are regulated.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 35. Financial risk management objectives and policies (cont'd)

### Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows, and having adequate amounts of committed credit facilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at December 31, 2009	One year or less Rmb'000	One to five years Rmb'000	Total Rmb'000
<b>Financial assets:</b>			
Trade and bill receivables	2,506,701	—	2,506,701
Other receivables:			—
Staff advances	7,394	—	7,394
Amounts due under guarantee contracts, net	12,557	—	12,557
Land deposits	5,000	—	5,000
Associates	44,662	—	44,662
Other related parties	20,310	61,222	81,532
Others	91,627	—	91,627
Cash and cash equivalents	3,657,981	—	3,657,981
	6,346,232	61,222	6,407,454
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	479,322	641,324	1,120,646
Preference shares	485	1,634	2,119
Trade and other payables	6,187,048	—	6,187,048
Finance lease liabilities	—	34,991	34,991
	6,666,855	677,949	7,344,804

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 35. Financial risk management objectives and policies (cont'd)

### Liquidity risk (cont'd)

As at December 31, 2008	One year or less Rmb'000	One to five years Rmb'000	Total Rmb'000
<b>Financial assets:</b>			
Trade and bill receivables	2,538,135	—	2,538,135
Other receivables:			
Staff advances	1,590	—	1,590
Amounts due under guarantee contracts, net	15,382	—	15,382
Land deposits	5,000	—	5,000
Recoverable from Malkn Sdn Bhd	22,671	—	22,671
Associates	91,027	—	91,027
Other related parties	53,894	61,475	115,369
Others	34,122	—	34,122
Cash and cash equivalents	823,695	—	823,695
	3,585,516	61,475	3,646,991
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	1,194,444	179,198	1,373,642
Preference shares	—	2,075	2,075
Trade and other payables	3,572,614	—	3,572,614
Finance lease liabilities	5	5	10
	4,767,063	181,278	4,948,341
<b>As at January 1, 2008</b>			
	<b>One year or less Rmb'000</b>	<b>One to five years Rmb'000</b>	<b>Total Rmb'000</b>
<b>Financial assets:</b>			
Trade and bill receivables	3,109,244	—	3,109,244
Other receivables:			
Staff advances	8,071	—	8,071
Amounts due under guarantee contracts, net	20,162	—	20,162
Land deposits	5,000	—	5,000
Recoverable from Malkn Sdn Bhd	35,122	—	35,122
Associates	17,373	—	17,373
Other related parties	145,702	65,223	210,925
Others	(28,140)	—	(28,140)
Cash and cash equivalents	759,837	—	759,837
	4,072,371	65,223	4,137,594
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	1,325,206	322,409	1,647,615
Preference shares	—	2,286	2,286
Trade and other payables	3,693,444	—	3,693,444
Finance lease liabilities	5	10	15
	5,018,655	324,705	5,343,360



# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 36. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance except where decisions are made to exit businesses or close companies.

The capital structure of the Group consists of debts (which includes the borrowings and trade and other payables, less cash and cash equivalents) and equity attributable to owners of the Group (comprising issued capital and reserves).

	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2009 US\$'000
Interest-bearing loans and borrowings (Note 19)	1,325,488	1,079,048	158,063
Trade and other payables (Note 29)	3,604,128	6,190,246	906,770
Less cash and cash equivalents (Note 25)	(823,695)	(3,657,981)	(535,834)
Net debt	4,105,921	3,611,313	528,999
Equity	4,614,959	5,409,790	792,446
Total capital and net debt	8,720,880	9,021,103	1,321,445

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ending December 31, 2009 and 2008.

## 37. Fair values of financial instruments

The carrying amounts of trade and bills receivables, other receivables, cash and cash equivalents, interest-bearing loans and borrowings, preference shares, trade and other payables and finance lease liabilities approximate their fair value due to their short term nature.

The carrying amount of other receivables (long term) and interest bearing loans and borrowings (long-term) approximate their fair value as their interest rates approximate the market lending rate.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 38. Events after the balance sheet date

### (a) S\$16.5 million credit facility with Bank of Tokyo-Mitsubishi, UFJ Ltd, Singapore Branch (“BOTM”)

On March 17, 2010, the Company entered into a new facility agreement with BOTM to re-finance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S\$16.5 million with one year duration. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that Hong Leong Asia Ltd. (“HLA”) retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

### (b) US\$30.0 million credit facility with Sumitomo

On March 30, 2010, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US\$30.0 million to refinance the US\$40.0 million facility that was due to mature on March 30, 2010. The facility is available for one year from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not less than US\$200 million and the ratio of our total consolidated net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

### (c) HLGE S\$93 million Loan Agreement

On February 3, 2010, Venture Lewis has agreed to extend the 2009 loan by extending the grant of the S\$93 million unsecured loan for a further term of one year from July 3, 2010 to July 3, 2011, upon the terms and conditions of the loan agreement dated February 3, 2010. The terms of the 2010 loan are substantially similar to those of the 2009 loan. The 2010 loan carries interest at the rate of 3.42% per annum, being aggregate of the margin of 2.5% per annum and the SIBOR rate of 0.92% per annum, and is renewable by mutual agreement on an annual basis.

# Notes to the Consolidated Financial Statements

(Rmb and US\$ amounts expressed in thousands, except per share data)

## 38. Events after the balance sheet date (cont'd)

### (d) Mandatory conversion of series B redeemable convertible preference shares (“Series B Preference Shares”)

As announced by HLGE on February 12, 2010, an aggregate of 18,935,883 Series B Preference Shares in the capital of HLGE shall be mandatorily converted into an aggregate of 18,935,883 Ordinary Shares on March 18, 2010, being the Market Day immediately following the fifth (5th) anniversary of the date of issue of the Series B Preference Shares.

Article 8B(6) of the Articles provides that if the conversion of all or any part of the Series B Preference Shares held by any holder of Series B Preference Shares (a) is not permitted by law or regulations or (b) will trigger any obligation to make a general offer by such holder or its concert parties under the Singapore Code on Take-overs and Mergers, such holder will be permitted to convert only such number of Series B Preference Shares held by it as will not (i) result in the breach of such law or regulations or (ii) trigger any take-over obligation on the Mandatory Conversion Date. Such holder will have the option to convert the remaining number of Series B Preference Shares at the Series B Preference Share Conversion Ratio into Ordinary Shares (subject to the adjustment provisions under Article 8B(7) of the Articles) over a period of twenty-two (22) months commencing after the Mandatory Conversion Date (the “Extension Period”), without the requirement of the passing of a Series B Preference Share Special Resolution, by giving a notice in writing to HLGE.

So as not to trigger a take-over obligation on the Mandatory Conversion Date, Grace Star Services Ltd. (“Grace Star”), a substantial shareholder of HLGE, has given written notice to HLGE dated February 11, 2010 informed that pursuant to Article 8B(6) of the Articles, Grace Star will only be converting 17,300,000 out of the 93,229,170 Series B Preference Shares held by it under the Mandatory Conversion, with an option to convert the remaining 75,929,170 Series B Preference Shares held by it into Ordinary Shares during the Extension Period.

Following the Mandatory Conversion, the total number of Ordinary Shares will increase to 872,901,230 Ordinary Shares and 75,929,170 Series B Preference Shares will remain in issue. HLGE also has 14,202,139 Series A Redeemable Convertible Preference Shares and 313,152 Non-Redeemable Convertible Cumulative Preference Shares in issue as at the date hereof.

On February 10, 2010, the Group has indicated that it has no objections to the use of the proceeds from disposal of certain assets of HLGE to meet HLGE’s debts as and when they are due.

### (e) Changes in shareholding of HLGE

With the conversion of 17,300,000 Existing HLGE RCPS B into HLGE ordinary shares on the Mandatory Conversion Date, the Company’s shareholding interest in HLGE increased from 45.4% to 46.4% with effect from March 24, 2010 upon receipt of regulatory approval.

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## Reference Information

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Stock is listed on the New York Stock Exchange  
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Produced by  
Group Corporate Affairs  
Hong Leong Group Singapore

Designed and typeset by  
Xpress Print Pte Ltd

Printed by  
Bowne International



China Yuchai International Limited

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