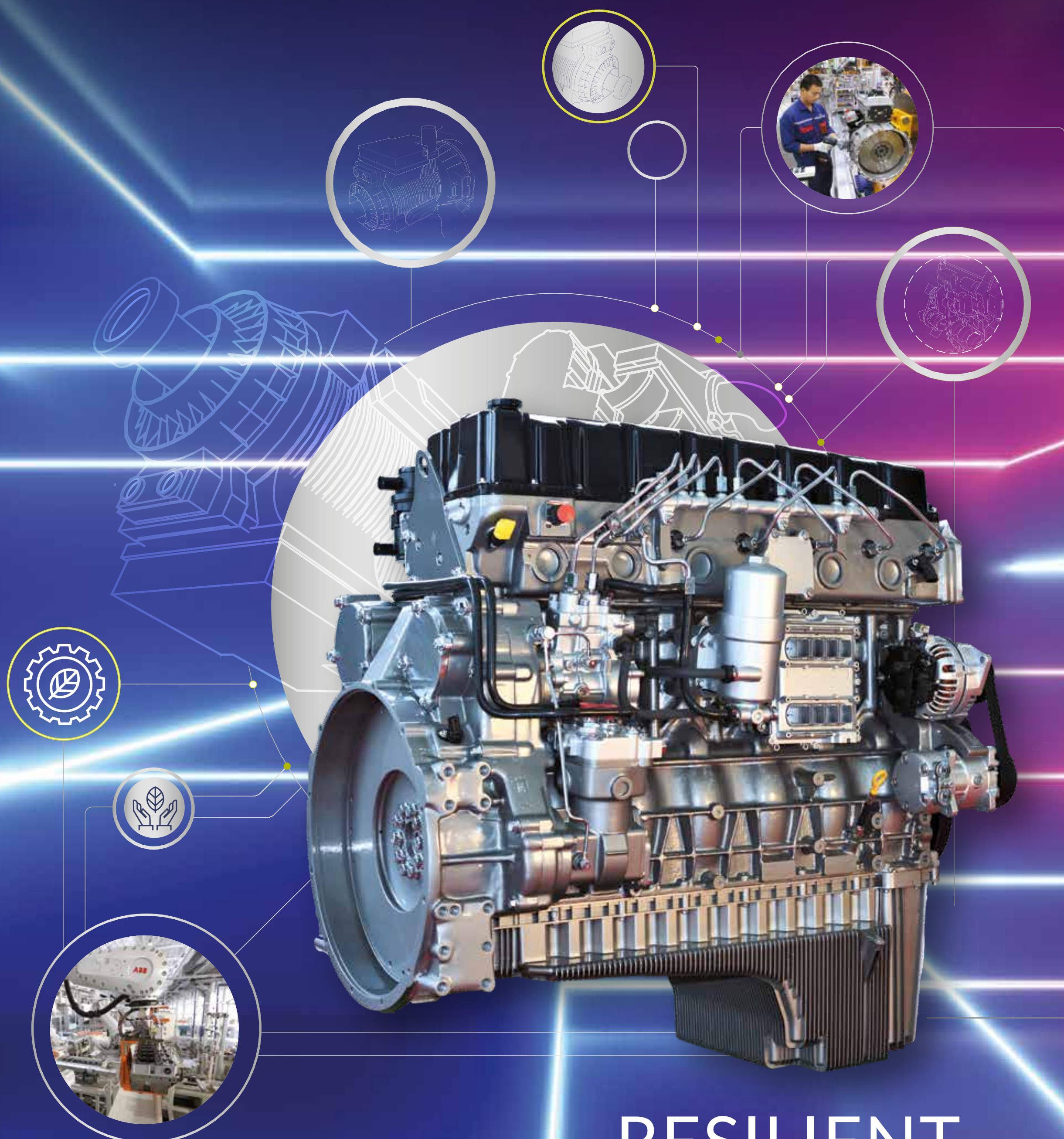
China Yuchai International Limited



RESILIENT RESOLUTE RESOURCEFUL

CHINA YUCHAI INTERNATIONAL LIMITED
Annual Report 2022

The YCK11 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, highway coaches and buses over 10m in length. It has a displacement volume of 10.84 liter and a maximum power output of 500 PS with a maximum torque of 2200 N-m.

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CHINA YUCHAI'S CORE IDEALS

玉柴国际的核心理念

VISION

To be the premier manufacturer of environmentally-friendly engines and automotive systems and a leading supplier of high value products and services

愿景

成为卓越环保发动机和汽车系统制造商和提供优良产品及一流服务的供应商

MISSION

- Utilize our product excellence and leadership to meet customers' automotive and power demands
- Establish China Yuchai as a high performance and highly respected 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

使命

- 利用卓越的产品和领导力满足客户在汽车和能源领域的需求
- 创建高绩效的国际企业
- 成为具有良好社会责任及拥有公众诚信度的优秀企业
- 营造良好的员工工作环境

FINANCIAL HIGHLIGHTS

	2022 RMB'000	2021 RMB'000	2020 RMB'000
Revenue	**16,030,636**	21,265,930	20,581,170
Profit attributable to equity holders of the Company	**218,581**	272,673	548,903
Total assets	**24,137,556**	24,905,309	26,290,958
Equity attributable to equity holders of the Company	**9,008,946**	8,859,152	9,014,624

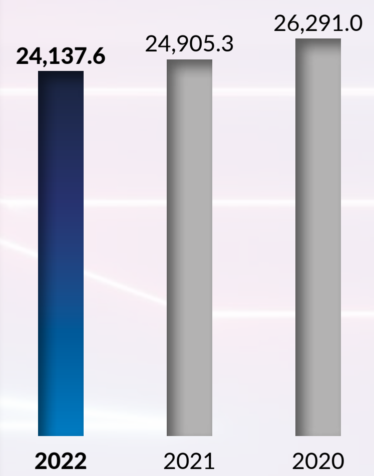
	2022 RMB	2021 RMB	2020 RMB
Earnings per share attributable to equity holders of the Company (RMB per share)	**5.35**	6.67	13.43
Weighted average number of shares	**40,858,290**	40,858,290	40,858,290

WE SOLD
321,256
Units of Engines

The YCK08 engine compliant with National VI emission standards is for use in medium-duty and special purpose trucks, highway coaches and buses. It has a displacement volume of 7.7 liter and a maximum power output of 350 PS with a maximum torque of 1400 N-m.

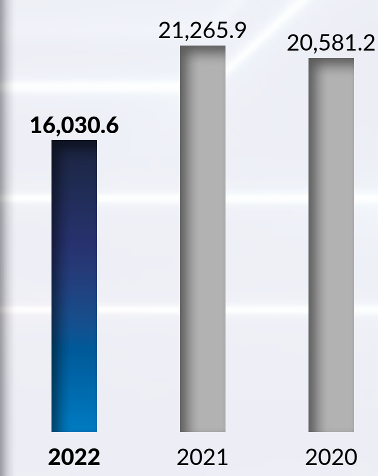
FINANCIAL HIGHLIGHTS

TOTAL ASSETS
(RMB Million)

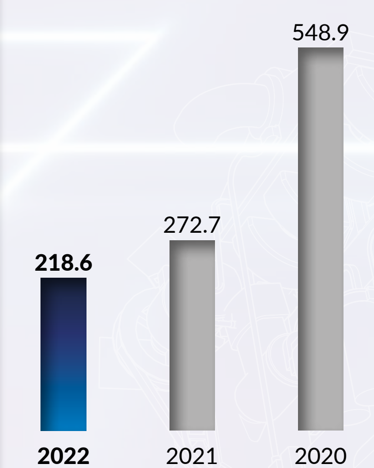


EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(RMB Million)

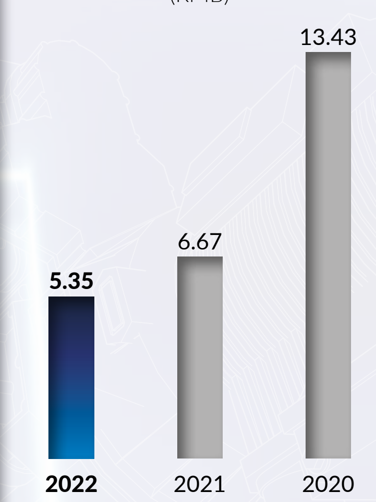
REVENUE
(RMB Million)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(RMB Million)



EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(RMB)



PRESIDENT'S STATEMENT

Dear Shareholders,

Having led the world in growth for 2021, China dealt with disruptions and economic turmoil in 2022. As one of the largest powertrain product makers for Chinese on-road and off-road markets, we encountered the inevitable impact from macroeconomic headwinds. However, we also managed to turn this unprecedented crisis into an invaluable opportunity where we optimized our revenue mix, streamlined our organization, strengthened our cost management, and improved our margins. While we took a leap in new energy product development in 2022, our ability to generate profits, once again, served as a testament for the resilience of our business.

Chinese GDP experienced a year-over-year growth of only 3.0% in 2022, which was less than half of the 8.4% growth in 2021. The emergence of new waves of COVID-19 cases resulted in mandatory regional lockdowns, travel restrictions, and supply chain disruptions. The decline in consumer confidence, lower retail sales, fewer construction and infrastructure projects, and a decrease in real estate investment all impacted the demand for new commercial vehicles in 2022. Additionally, commercial vehicle production was partly affected by supply chain interruptions.

According to data reported by the China Association of Automobile Manufacturers for 2022, combined truck and bus unit sales (excluding gasoline-powered and electric-powered vehicles) witnessed a significant year-over-year decline of 41.4%. Truck unit sales were down by 42.9%, while bus unit sales decreased by 27.1%. All truck and bus size categories experienced double-digit declines in unit sales in 2022. Although unit sales declined by 49.7% year-over-year in the first half of 2022, they improved with a decrease of 26.3% in the second half.

In line with the challenging commercial vehicle environment, our main subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL" or "Yuchai"), reported a year-over-year decline of 29.7%, with total sales of 321,256 units in 2022. Our on-road combined truck and bus sales experienced a decline of 47.8% year-over-year, with truck unit sales down by 49.6% and bus unit sales 33.2% lower. Off-road unit sales also incurred a 9.8% year-over-year decline in 2022, primarily driven by a 30.8% reduction in marine and power generator sales as 2021 sales rose due to temporary power shortages in China. Although unit sales of our new energy products were relatively small, totaling 6,327 units in 2022, they demonstrated significant growth compared to 501 units in the previous year.

REVENUE
RMB 16.0 Billion

Our extensive portfolio of engines, in compliance with the stricter National VI emission standards, successfully penetrated their targeted on-road markets. Additionally, we introduced a new line of Tier-4 compliant engines for the off-road markets. Throughout 2022, we secured several important orders for our traditional engine products. Notably, our YC6GN 7.8-liter heavy-duty natural gas engine became the exclusive engine powering 800 Ankai buses shipped to Monterrey, Mexico, the third-largest city in that country. This large exclusive order showcased the confidence Ankai has in our engine performance. We also received an order for 100 heavy-duty truck engines from Jianghuai Heavy Duty Truck, one of China's top commercial vehicle manufacturers with an international presence. Furthermore, our upgraded Yuchai S04220-61 series of engines have been certified by the UN R49.07 Euro VI E stage emission standard, granting us greater access to European and American markets.

In 2022, our revenue amounted to RMB 16.0 billion (US$ 2.3 billion), compared to RMB 21.3 billion in 2021, primarily due to lower market demand for commercial vehicles and higher inventory levels at the start of 2022. Although our gross profit declined by 10.9% year-over-year in 2022, our gross margin increased to 16.4% compared to 13.9% in 2021 and 15.5% in 2020. This improvement in gross margin was attributed to a higher proportion of off-road revenue, cost reductions, and lower sales rebates.

Our cost-cutting initiatives resulted in an 8.2% reduction in selling, general, and administrative expenses in 2022. Total research and development (R&D) expenditures, including capitalized costs, were lowered to RMB 1.0 billion (US$ 146.4 million) in 2022 from RMB 1.2 billion in 2021, as most National VI and Tier-4 engine development programs reached commercial production. Going forward, our R&D efforts will be primarily focused on new energy products, marine and power generator applications, and further enhancements to National VI and Tier-4 engines. We remain committed to executing cost reduction initiatives to improve overall efficiency.

PRESIDENT'S STATEMENT

Profit attributable to equity holders of the Company in 2022 amounted to RMB 218.6 million (US$ 31.4 million), which was lower than the RMB 272.7 million achieved in 2021. Our share of higher profits at the MTU Yuchai operation and lower losses at Y&C Engine Co., Ltd. contributed to the improved profitability in 2022, showing a nearly 70% improvement compared to the loss of RMB 95.9 million in 2021.

Maintaining financial strength remains our highest priority, as our cash and bank balances stood at RMB 4.9 billion (US$ 697.8 million) as of December 31, 2022, which amounted to approximately US$17.08 per share. We maintained our track record of generating profits and paying cash dividends despite a challenging year. On July 15, 2022, a cash dividend of US$0.40 per ordinary share was paid. Dividends continue to be our preferred method of rewarding shareholders.

Given the automotive industry's stricter emission standards, advanced R&D plays a critical role in meeting our goal of becoming one of the first to introduce new engines compliant with upcoming emission standards. In addition to our product offering of National VI(a) engines, we have already developed engines compliant with the even stricter National VI(b) emission standards well before the mandated implementation date of July 2023. Similarly, new engines meeting the stricter Chinese Tier-4 emission standards for off-road applications were certified well ahead of the December 2022 standard implementation. This approach allows us to gain early market experience with these new engines, enhance the solutions we provide to customers, and strengthen our reputation in the marketplace.

Moving forward, a portion of our R&D expenditures will be dedicated to the further development of New Energy Vehicle (NEV) technologies to expand our current product offerings for the future. We have already introduced a new hydrogen internal combustion engine, the light-duty YCK05H, at the end of 2021. In 2022, we launched the YCK16H, a new heavy-duty hydrogen engine designed for heavy-duty vehicles powered by combustible hydrogen. The YCK16H, with a displacement of 15.93 liters and a maximum horsepower of 560 horsepower, was one of the largest hydrogen internal combustion heavy-duty engines upon its launch in China. We also have a range of NEV products in our portfolio or under development, including AMT full electric propulsion, eCVT hybrid systems, fuel cell power systems and range extenders. With increased focus on NEV products, we aim to expand our portfolio and position ourselves for future growth in this market.

OPERATING PROFIT
RMB 519.3 Million

In late 2021, we began restructuring our business segments to provide more autonomy to operational managers, enabling them to have greater control over improving operations and enhancing performance. Guangxi Yuchai Marine and Genset Power Co., Ltd. took over Yuchai's spun-off marine and power generator businesses, including the transferred assets and operations of Guangxi Yuchai Deyou Engine Systems Co., Ltd. and MTU Yuchai Power Company Limited. By consolidating these marine and power genset operations into a more comprehensive product line and service portfolio, we aim to become a more responsive and stronger competitor in the marketplace. In a similar fashion, Yuchai Xin-Lan now oversees and spreadheads our New Energy Vehicle (NEV) product development through the Beijing Yuchai Xingshunda and Yuchai Xin-Lan (Jiangsu) Hydrogen Energy subsidiaries. With new funding from other investors, Yuchai Xin-Lan is well positioned to capitalize on the opportunities in the fast-growing NEV market.

Looking ahead to 2023, the lifting of COVID-19 lockdowns and travel restrictions, and recent economic stimulus measures by the Chinese government, should create a positive outlook for the Chinese economy. However, the Chinese economy is facing challenges which could constrain the pace of its economic recovery. In the face of an uncertain business environment, we are positioned to continuously supply powertrain solutions with our broad portfolio of engines and to drive value for our shareholders.

Weng Ming HOH
President
June 21, 2023

总裁致词

尊敬的股东们：

回首2021年，中国引领世界经济增长，2022年，中国迎难而上，有力应对了各种干扰和经济动荡。作为中国道路和非道路市场最大的动力系统产品制造商之一，我们不可避免地遭受了来自宏观经济"逆风"的影响。尽管艰难，我们依然努力将这一前所未有的逆境转化为宝贵的机遇，为此，我们着力于优化收入结构，精简组织，强化成本管理，提高利润率。我们在2022年实现了新能源产品开发的飞跃，而我们的盈利能力再次彰显了我们业务的韧性。

中国GDP在2022年同比增长仅3.0%，不到2021年8.4%增长的一半。一波波COVID-19新疫情的出现导致了区域封锁、出行限制及供应链中断。消费者信心下滑、零售额下降、建筑和基础设施项目减少，以及房地产投资疲软等不利因素，对2022年新商用车辆的市场需求产生了冲击。此外，商用车生产在一定程度上亦受到供应链中断的影响。

根据中国汽车工业协会2022年报告数据，卡车和客车总销量（不含汽油动力车和电动汽车）同比大幅下降41.4%。卡车销量下降42.9%，而客车销量下降27.1%。2022年，所有类别的卡车和客车销量均经历了两位数的下降。尽管2022年上半年销量同比下降49.7%，但在下半年有所改善，下降了26.3%。

与商用车市场所面临的不利局面相同，我们的主要子公司广西玉柴机器股份有限公司（"GYMCL"或"玉柴"）2022年发动机总销量亦同比下滑29.7%，为321,256台。我们的卡车和客车总销量同比下降了47.8%，其中卡车销量下降49.6%，客车销量下降33.2%。2022年，非道路用途发动机销量同比下降9.8%，主要由于船用和发电用途发动机销量减少30.8%，而受中国暂时性电力短缺的带动，该些产品的2021年销量较高。尽管我们新能源产品销量相对较少，2022年共计6,327台，但与上一年的501台相比，增长显著。

我们广泛的发动机系列产品，符合更为严格的国六排放标准，成功打入目标道路市场。此外，我们在非道路市场推出了全新符合四阶段排放标准的发动机系列。纵观2022年，我们获得了传统发动机产品多个重要订单。尤其值得关注的是，我们的YC6GN 7.8升重型天然气发动机成为运往墨西哥蒙特雷（该国第三大城市）的800辆安凯客车的独家发动机。这一大额独家订单彰显了安凯对我们发动机性能的信心。同时，我们还获得江淮重卡100台重型卡车发动机的订单，江淮重卡是中国顶级商用车制造商之一，在国际上有一定的影响力。此外，我们升级后的玉柴S04220-61系列发动机已通过UN R49.07欧六E阶段排放标准认证，给予我们更多机会进军欧洲和美国市场。

2022年，我们实现收入人民币160亿元（23亿美元），2021年为人民币213亿元，主要是由于市场对商用车需求的减少，以及2022年初市场渠道较多库存积压。虽然2022年我们的毛利额同比下降了10.9%，但毛利率增长到16.4%，相比2021年为13.9%，2020年为15.5%。毛利率的提高主要归功于非道路收用途入比例增加、削减成本及销售折让减少。

我们降成本举措成效显著，2022年的销售及管理费用减少了8.2%。由于大多数国六和非道路四阶段发动机开发项目已达至商业化生产阶段，包括资本化在内的研发总支出从2021年的人民币12亿元降低至2022年的人民币10亿元（1.464亿美元）。展望未来，我们的研发重点将聚焦新能源产品、船用和发电用途发动机，以及进一步强化国六和非道路四阶段发动机。我们将持续致力于降低成本，提高总体效率。

The YCA05 engine compliant with China off-road Tier-4 emission standards is for use in industrial and agricultural off-road applications. It has a displacement volume of 4.8 liter and a maximum power output of 220 PS with a maximum torque of 720 N-m.

总裁致词

2022年归属于母公司股东的净利润为人民币2.186亿元(3,140万美元),低于2021年的人民币2.727亿元。我们合资企业的投资收益方面,玉柴安特优2022年净利润的提高以及玉柴联合动力较低亏损,提高了我们2022年的盈利能力,与2021年的亏损人民币9,590万元相比,进步将近70%。

保持稳健的财务实力依然是我们首要的工作重点,截至2022年12月31日,我们的现金和银行存款为人民币49亿元(6.978亿美元),约为每股17.08美元。尽管2022年困难重重,我们依然保持着盈利记录,并派发现金股息。2022年7月15日,我们支付了每股0.40美元的现金股息。股息仍然是我们回报股东的首选方式。

面对日益严格的汽车行业排放标准,领先的研发实力将发挥关键作用,以助力我们成为首批推出符合未来排放标准发动机的制造商。除了提供国六(a)发动机产品外,我们早在2023年7月标准强制实施日期前已开发了符合更为严格的国六(b)排放标准的发动机。同时,我们符合更为严格非道路四阶段排放标准的新发动机也在2022年12月标准实施之前就已获得认证。凭借这些佳绩,我们抢先取得了新发动机市场,获得经验,为客户提供更佳解决方案,同时提升市场声誉。

展望未来,我们的一部分研发支出将用于进一步开发新能源汽车(NEV)技术,扩大当前产品种类。我们早在2021年底就推出了全新氢气内燃机——轻型YCK05H。2022年,我们又推出了一款专为使用可燃氢动力的重型车辆而设计的全新的重型氢气发动机YCK16H。YCK16H的排量为15.93升,最大马力可达560马力,在上市时是中国最大的氢气内燃重

Final inspection before Engine off-line.

“我们广泛的发动机系列产品,符合更为严格的国六排放标准,成功打入目标道路市场。此外,我们在非道路市场推出了全新符合四阶段排放标准的发动机系列。纵观2022年,我们获得了传统发动机产品多个重要订单。”

型发动机之一。我们目前或正在开发的产品组合中也有一系列NEV产品,包括AMT全电动推进器、eCVT混合动力系统、燃料电池动力系统及增程器。NEV产品日益受到关注,我们希望扩大产品种类,为实现市场未来增长全力做好准备。

2021年底,我们开始重组业务部门,赋予业务板块运营负责人更多自主权,让其能够在改善运营和提高绩效方面拥有更大的掌控权。广西玉柴船电动力有限公司(“玉柴船电”)接管了从玉柴分拆出来的船用和发电用途发动机板块业务,以及将子公司广西玉柴德优发动机系统有限公司及合营公司玉柴安特优动力有限公司划拨给玉柴船电。通过以上重组,船用和发电用途发动机业务拥有更全面的产品生产线及更完善的服务配套,我们藉此希望成为反应敏捷、实力强大的市场竞争者。同时,玉柴芯蓝通过北京玉柴兴顺达和玉柴芯蓝(江苏)氢能源这两家子公司,主管我们目前新能源系列产品的开发和推广。通过其他投资者的资金支持,玉柴芯蓝随时准备在快速增长的新能源市场中抓住机遇。

展望2023年,随着COVID-19疫情封锁和出行限制的解除,及中国政府的经济刺激措施,有望为中国带来乐观向好的经济前景。但同时中国经济正面临挑战,经济复苏的步伐可能受到限制。面对充满不确定性的商业环境,相信,我们能够通过多样化的发动机组合产品继续为客户提供动力总成解决方案,并为股东创造价值。

何永明
总裁
2023年6月21日

CORPORATE BACKGROUND

China Yuchai International Limited ("China Yuchai") is a Bermuda holding company established on April 29, 1993 and listed on the New York Stock Exchange under symbol "CYD", with major operations in China. It is a subsidiary of Singapore-based Hong Leong Asia Ltd.

China Yuchai, through six wholly owned subsidiaries, owns a controlling 76.4% equity interest in its principal operating subsidiary, Guangxi Yuchai Machinery Company Limited ("Yuchai"). With its headquarter and primary manufacturing facilities in Yulin City, Guangxi Zhuang Autonomous Region, Yuchai engages in the manufacture, assembly and sale of a wide variety of light-, medium- and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, marine and agriculture applications. Yuchai also produces engines for diesel-powered generators. The engines produced by Yuchai range from diesel and natural gas engines, fuel cells, hybrid-powered systems, pure electric systems, range extenders, electric drive axle, etc. Through its regional sales offices and authorized customer service centers, Yuchai distributes its engines directly to OEMs, retailers and agents, and provides maintenance and retrofitting services throughout China.

Found in 1951, Yuchai has established a reputable brand name, strong research and development team and significant market share in China with high-quality products and reliable after-sales support. In 2022, Yuchai sold 321,256 engines and is recognized as a leading manufacturer and distributor of engines in China.

China Yuchai also holds a 48.9% shareholding interest in HL Global Enterprises Limited ("HLGE") which is listed on the main board of the Singapore Exchange. HLGE currently operates the Copthorne Hotel Cameron Highlands, a hotel in Cameron Highlands, Malaysia.

MTU Yuchai Power Co., Ltd., Yuchai's 50-50 joint venture with MTU Friedrichshafen GmbH, a subsidiary of Rolls-Royce Power Systems (LON: RR), celebrated a major milestone as the 1,000th MTU Series 4000 high-horsepower diesel engines rolled off the production line at the factory in Yulin in 2022.

公司背景

中国玉柴国际有限公司（"玉柴国际"）是一家成立于1993年4月29日的百慕大控股公司，在纽约证券交易所上市，代号为CYD，主要业务在中国。它是新加坡丰隆亚洲有限公司的子公司。

玉柴国际通过6家全资子公司，拥有其主要运营子公司广西玉柴机器股份有限公司（"玉柴"）76.4%的股权。玉柴的总部和生产基地位于中国广西壮族自治区玉林市，从事各种轻、中、重型的卡车、客车、乘用车、建筑设备、船舶和农业用发动机的制造、组装和销售。玉柴也生产柴油动力发电发动机。它的产品包括柴油机、燃气机、燃料电池、混合动力系统、纯电动系统、增程器、电驱动桥等。通过地区销售点和授权客服中心，玉柴直接销售发动机给原始设备制造商、代理商和经销商，并提供全国维修和改装服务。

创建于1951年，玉柴凭借高质量的产品和可靠的售后支持，在中国建立了声誉良好的品牌、强大的研发团队和可观的市场份额。2022年，玉柴销售发动机321,256台，被认为是中国领先的发动机制造商和销售商之一。

玉柴国际还持有新加坡交易所主板上市的丰隆环球有限公司（"HLGE"）48.9%的股权。HLGE目前经营着位于马来西亚金马伦高原国敦大酒店。

OUR SERVICE PRESENCE

239
Overseas Service Agents Appointed

17
Overseas Offices

Guangxi Yuchai Machinery Company Limited
广西玉柴机器股份有限公司总部

47 regional offices
47 个玉柴办事处

3,335 authorized domestic customer service stations
3,335 家玉柴授权国内服务站

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of March 1, 2023, there were ten 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 had designated Messrs. Gan Khai Choon, Kwek Leng Peck, Stephen Ho Kiam Kong, Hoh Weng Ming and Wong Hong Wai as its nominees. Messrs. Li Hanyang and Wu Qiwei 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.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming (1)(4)	President and Director	2011
GAN Khai Choon (1)(4)	Director	1995
KWEK Leng Peck (1)(2)	Director	1994
Stephen HO Kiam Kong	Director	2020
WONG Hong Wai *	Independent Director	2023
LI Hanyang (1)	Director	2021
WU Qiwei (1)	Director	2012
NEO Poh Kiat (1)(2)(3)	Independent Director	2005
HO Raymond Chi-Keung (2)(3)^	Independent Director	2004
XIE Tao (1)(3)	Independent Director	2019
LOO Choon Sen (1)	Chief Financial Officer	2021
Conyers Corporate Services (Bermuda) Limited	Secretary	2015

* Mr. Wong Hong Wai was appointed as a Director of the Company with effect from March 1, 2023 and was subsequently re-designated as an Independent Director with effect from April 21, 2023.

^ Mr. Ho Raymond Chi-Keung will be retiring pursuant to Bye-law 4(2) of the Bye-laws of the Company and he will not be seeking re-election at the Annual General Meeting of the Company to be held on August 7, 2023. Following his retirement, Mr. Ho will also cease to be a member of the Audit Committee and the Compensation Committee of the Company.

(1) Also a Director of Yuchai.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Also a Director of HLGE.

BOARD OF DIRECTORS

Mr. HOH Weng Ming is the President and a Director of the Company as well as a Director of Yuchai and HLGE. Mr. Hoh has more than 35 years of working experience with extensive regional experience in Singapore, Malaysia, New Zealand, Hong Kong and China. He was previously the Financial Controller of the Company from 2002 to 2003, the Chief Financial Officer of the Company from May 2008 to November 2011 and the Chief Financial Officer of Hong Leong Asia from 2011 to 2013. Prior to that, he had worked in various roles with companies including Johnson Electric Industrial Manufactory Limited as well as Henan Xinfei Electric Co., Ltd. Mr. Hoh has a Bachelor of Commerce Degree majoring in Accountancy from the University of Canterbury, Christchurch, New Zealand and an MBA degree from Massey University, New Zealand. He is a Chartered Accountant in New Zealand and a Fellow Member of the Hong Kong Institute of Certified Public Accountants.

Dato' GAN Khai Choon is a Director of the Company, Yuchai, Grace Star, and Venture Delta, as well as the Non-Executive Chairman of HLGE. He is also the Managing Director of Hong Leong International (Hong Kong) Limited and an Executive Director of Hong Leong Hotel Development Limited. Dato' Gan 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. Dato' Gan is related to Mr. Kwek Leng Peck.

Mr. KWEK Leng Peck is a Director of the Company and Yuchai. He is also the Executive Chairman of Hong Leong Asia and an Executive Director of Hong Leong Investment Holdings Pte. Ltd. and Hong Leong Corporation Holdings Pte. Ltd. He also sits on the boards of HL Technology, Hong Leong China, Well Summit Investments Limited and Hong Leong Finance Limited, as well as other affiliated companies. Mr. Kwek has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management. Mr. Kwek is related to Dato' Gan Khai Choon.

Mr. Stephen HO Kiam Kong is a Director of the Company, Grace Star, and Venture Delta. He is also the Chief Executive Officer and a Director of Hong Leong Asia. He also sits on the boards of HL Technology, Hong Leong China and Well Summit, as well as other affiliated companies. Mr. Ho has extensive experience in finance, treasury and risk management from his executive positions previously held at Wilmar International Limited and a Dutch multinational corporate, Royal Philips. Prior to his financial management role, Mr. Ho worked for major international financial institutions in Singapore, Hong Kong and New York in the areas of corporate banking, global markets trading, marketing and sales. Mr. Ho holds a Bachelor of Commerce and Administration Degree from Victoria University of Wellington, New Zealand and had completed the Advanced Management Program at the Harvard Business School, Boston, US.

Mr. WONG Hong Wai was appointed as a Director of the Company with effect from March 1, 2023 and was subsequently re-designated as an Independent Director with effect from April 21, 2023. He is presently an Innovation Advisor with Innovation Partner for Impact, a subsidiary of Enterprise Singapore, and an Associate Faculty Member with the Singapore Institute of Technology. Mr. Wong was with General Motors for 29 years and has extensive experiences in areas such as M&A, new business development, strategic alliance management, sales/marketing, strategic risk management, business strategy, product portfolio planning, global procurement, and business process re-engineering. Mr. Wong is a member of the Singapore Institute of Directors and a Fellow of the Singapore Institute of Arbitrators. He holds a Bachelor of Engineering (Production and Industrial Engineering) degree from the Ulm University of Applied Sciences in Germany and a Master of Business Administration from the National University of Singapore. He has also completed an Executive Program at the Stephen M. Ross School of Business at the University of Michigan, U.S.A. Our Board of Directors has determined that Mr. Wong is independent under the rules of the NYSE.

BOARD OF DIRECTORS

Mr. LI Hanyang was appointed as Director of the Company on May 12, 2021. He was also Chairman of Yuchai's Board and Chairman of the GY Group (a 17.20% shareholder of the Company). Mr. Li started his career with Yuchai as a production preparation section chief in 1993 and was gradually promoted to deputy general manager of Yuchai in 2000. He was transferred to GY Group in 2002 and since then he has served in various managerial position including chief engineer, director, chairman and party secretary of GY Group and its subsidiaries. Mr. Li holds a Bachelor's degree in mechanical design and manufacturing from Tsinghua University and an MBA from the School of Management, Huazhong University of Science and Technology.

Dr. WU Qiwei was elected as Director of the Company on July 23, 2021 after serving as Alternate Director of the Company to Mr. Yan Ping since 2012. Dr. Wu is also the President and a director of Yuchai. He previously served as one of the Deputy General Managers of Yuchai and was in charge of sales and marketing. He holds a Bachelor of Engineering Degree from Hunan University, an MBA degree from the Huazhong University of Science and Technology and a Doctorate in Marine Engineering from Wuhan University of Technology.

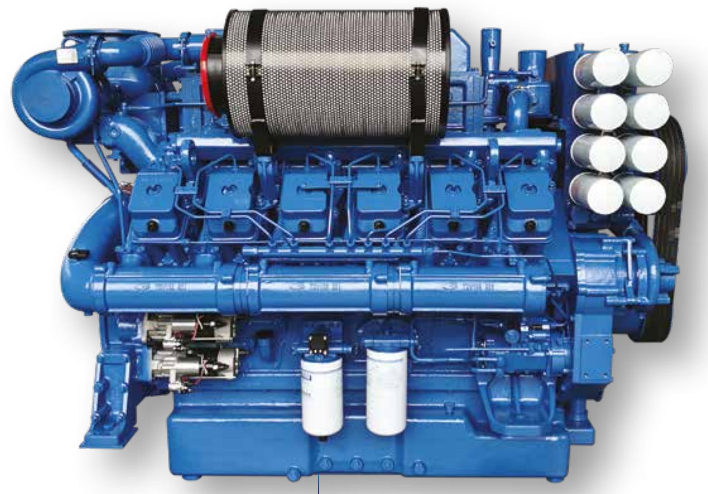
Mr. NEO Poh Kiat is an Independent Director of the Company and Yuchai. Between August 1976 and January 2005, he held various senior managerial positions with companies in the DBS Bank group and United Overseas Bank Ltd. Mr. Neo is currently also a director of Cambodia Post Bank Plc, Fullerton Credit group companies in China and CapitaLand China Trust Management Limited and Valuemax Group Limited. 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. HO Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an Independent Director on April 30, 2013. Mr. Ho is a practicing arbitrator. From 2008 to 2011, he was the Secretary General of the Law Society of Hong Kong and prior to joining the Law Society secretariat in 2006, he had practiced law as a solicitor for 23 years with extensive experience in transactional and contentious matters. Mr. Ho holds Bachelor of Laws and Master of Social Sciences degrees from the University of Hong Kong as well as a Master of Laws degree from the University of London. He is a Fellow of the U.K. Chartered Institute of Arbitrators and a Member of Silicon Valley Arbitration and Mediation Center. Mr. Ho is currently listed on the Panel of Arbitrators of Hong Kong International Arbitration Centre. He was admitted as a Solicitor in Hong Kong and England & Wales; and was a Barrister and Solicitor in the Australian Capital Territory and the Province of British Columbia, Canada; and is currently a non-practicing member of the Law Societies in these jurisdictions. Mr. Ho is also a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho 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. XIE Tao is an Independent Director of the Company and Yuchai. He is also an Independent Director of Zhengjiang Wanfeng Auto Wheel Co., Ltd and Gongniu Group Co., Ltd, a listed company in China, as well as a Non-independent Non-executive Director of Shanghai Vico Precision Mold & Plastics Co., Ltd. Mr. Xie has more than 30 years of experience in corporate management and financial advisory, including mergers and acquisitions, corporate finance and transaction services. He has spent the major part of his career with PricewaterhouseCoopers (PwC) for nearly 23 years as a lead partner of the Advisory practice in PwC China and as the Senior Partner of Corporate Finance serving on the Executive Board of the China, Singapore and Hong Kong member firms of PwC. Between 2012 and 2014, he was a partner at Ernst & Young, then Deloitte, as a leader of transaction services and corporate finance business. Mr. Xie holds a Bachelor's degree in Physics from Beijing University in China and was a member of the UK Chartered Association of Certified Accountants. Our Board of Directors has determined that Mr. Xie is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

EXECUTIVE OFFICER OF THE COMPANY

Mr. LOO Choon Sen was appointed as the Chief Financial Officer of the Company on June 3, 2021 and a Director of Yuchai effective November 30, 2021. Mr. Loo has over 23 years of experience as a leader in financial operations. Since he joined Cameron International Corporation in 2001, he had held various positions within the group including the positions as Director of Finance for Canada and Director of Financial Services for Asia Pacific Middle East. In 2016, Schlumberger Limited acquired Cameron International Corporation and since then he was the Director of Finance for Schlumberger Limited's Cameron Product Lines for Asia Pacific Middle East. His last job was with TechnipFMC covering the Asia Pacific region for Surface International. Mr. Loo started his career as an auditor and he was the Financial Controller for a subsidiary of a listed Company in KLSE based out of Papua New Guinea in his early career. Mr. Loo holds a Bachelor of Commerce degree in Finance and Accounting from Curtin University of Technology, Australia and is a CPA in Australia.



YC12VTD is derived from the YC6TD engines where the V-engine enables the engine to have a compact configuration. The engine is 12-cylinder, 39 liter rated at 900 to 1345 kW at 1500 rpm, mainly for application in the power generator and industrial markets.

Workers building big diesel engines.

CORPORATE GOVERNANCE

We are an exempted 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 U.S. 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 U.S. companies.

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

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Director Independence	
• A majority of the board must consist of independent directors. 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 US$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.	• Four of our ten directors, Messrs. Xie Tao, Neo Poh Kiat, Ho Raymond Chi-Keung and Wong Hong Wai are independent within the meaning of the NYSE standards.
• The non-management directors of each company must meet at regularly scheduled executive sessions without management.	• As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.

CORPORATE GOVERNANCE

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Audit Committee	
• 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.	• Our Audit Committee meets the requirements of Rule 10A-3 under the Exchange Act.
• 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.	• Our Audit Committee currently consists of three members, all of whom meet the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.
• The audit committee must have a written charter that addresses the committee's purpose and responsibilities.	• Our Audit Committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of U.S. companies.
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.	• Our Audit Committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of U.S. companies.

The YCF36-T48 engine compliant with off-road Tier-4 emission standards is for use in industrial and agricultural off-road applications. It has a displacement volume of 3.6 liter and a maximum power output of 125 PS with a maximum torque of 480 N-m.

CORPORATE GOVERNANCE

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Audit Committee	
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.	• Our Audit Committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the Company and its auditor. It has established the Company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
• 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.	• The Board of Directors has identified Mr. Xie Tao as our Audit Committee Financial Expert.
• Each listed company must have an internal audit function.	• We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, reviews significant audit issues and monitors corrective actions taken by management.
Compensation Committee	
• Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.	• Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
• The committee must have a written charter that addresses its purpose and responsibilities.	
• 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.	• 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.

CORPORATE GOVERNANCE

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Nominating/Corporate Governance Committee	
• Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.	• 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.
• 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.	
Equity-Compensation Plans	
• Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions.	• Our Equity Incentive Plan was approved by our shareholders in 2014.
Corporate Governance Guidelines	
• Listed companies must adopt and disclose corporate governance guidelines.	• 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.
Code of Business Conduct and Ethics	
• All listed companies, U.S. 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.	• We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at http://www.cyilimited.com. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

FINANCIAL REPORT

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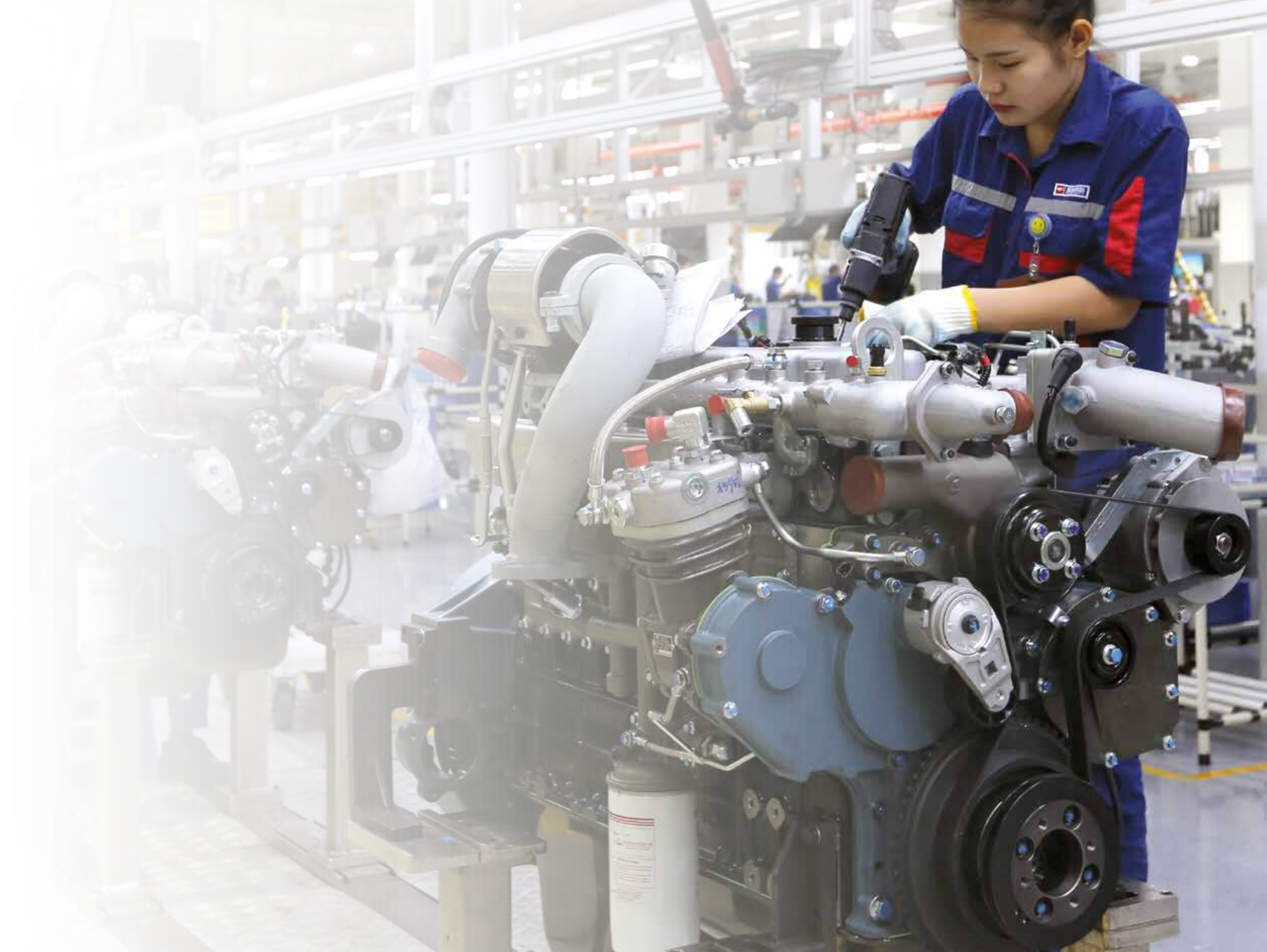

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of China Yuchai International Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 26, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Capitalization of development costs

Description of the Matter

Prior to the financial year ended December 31, 2020, the Group has commenced the process to research and develop new engine models to comply with the new engine emission standards as promulgated by the People's Republic of China (the "Development Projects"). The efforts to develop such new engines continued during the financial year ended December 31, 2022. The Group has determined that the Development Projects met the capitalization criteria as stated in Note 2.3 (l) to the consolidated financial statements and has capitalized RMB 1,052.2 million (US$ 151.4 million) of development costs as of December 31, 2022, as disclosed in Note 12 to the consolidated financial statements.

Auditing management's recognition of capitalized development costs was complex because the capitalization of development costs requires the application of management judgment to determine, amongst others, what continues to constitute development activities and when a Development Project should cease further capitalization of development costs. Management judgment is also required to ascertain the nature of expenses that qualify for capitalization.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested controls over the authorization, approval and recording of expenses and controls over monitoring of the status of the on-going Development Projects. Our audit procedures included, among others, evaluating management's judgment related to the determination of the research and development phases, and the determination of which development costs can be capitalized by conducting inquiries of the engineers in the Research and Development ("R&D") department to understand the progress of the Development Projects. In addition, for a sample of Development Projects, we evaluated the status of each project, and the costs capitalized by comparing the supporting documents to the Company's capitalization criteria. We evaluated management's assessment that the Development Projects continued to be in-progress by inspecting the testers' feedback and responses from the R&D department on a sample basis.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2009
Singapore
April 26, 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of China Yuchai International Limited

Opinion on Internal Control over Financial Reporting

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, China Yuchai International Limited (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of December 31, 2022 and 2021, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated April 26, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 Annual Report on 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP
Singapore
April 26, 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Revenue	6	20,581,170	21,265,930	16,030,636	2,305,936
Cost of sales		(17,391,599)	(18,313,817)	(13,399,986)	(1,927,529)
Gross profit		3,189,571	2,952,113	2,630,650	378,407
Other operating income	7.2(a)	400,269	326,171	334,349	48,095
Other operating expenses	7.2(b)	(21,322)	(9,982)	2,407	346
Research and development expenses		(626,478)	(848,812)	(836,438)	(120,318)
Selling, general and administrative expenses		(1,760,036)	(1,755,957)	(1,611,677)	(231,833)
Operating profit		1,182,004	663,533	519,291	74,697
Finance costs	7.3	(151,170)	(115,928)	(95,472)	(13,733)
Share of profit/(loss) of associates, net of tax		452	90	(1,547)	(223)
Share of loss of joint ventures, net of tax	5	(59,422)	(95,985)	(27,546)	(3,962)
Profit before tax		971,864	451,710	394,726	56,779
Income tax expense	8	(192,538)	(43,816)	(59,065)	(8,496)
Profit for the year		779,326	407,894	335,661	48,283
Attributable to:					
Equity holders of the Company		548,903	272,673	218,581	31,442
Non-controlling interests		230,423	135,221	117,080	16,841
		779,326	407,894	335,661	48,283
Earnings per share (dollar per share)					
– Basic	9	13.43	6.67	5.35	0.77
– Diluted	9	13.43	6.67	5.35	0.77

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Profit for the year	779,326	407,894	335,661	48,283
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods, net of tax:				
Foreign currency translation	(63,864)	(36,685)	88,708	12,760
Net fair value change on debt instruments at fair value through other comprehensive income	(2,752)	63,890	409	59
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	(66,616)	27,205	89,117	12,819
Total comprehensive income for the year, net of tax	712,710	435,099	424,778	61,102
Attributable to:				
Equity holders of the Company	492,966	293,240	292,369	42,056
Non-controlling interests	219,744	141,859	132,409	19,046
	712,710	435,099	424,778	61,102

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	10	4,197,909	3,995,744	574,770
Investment property	11	5,086	4,756	684
Intangible assets	12	1,758,582	1,874,824	269,685
Investment in associates		2,467	259	37
Investment in joint ventures	5	151,095	154,703	22,253
Deferred tax assets	8	398,174	450,882	64,857
Long-term bank deposits	16	110,000	20,000	2,877
Right-of-use assets	17	344,814	342,141	49,216
Capitalized contract cost	6.2	147,499	197,692	28,437
		7,115,626	7,041,001	1,012,816
Current assets				
Inventories	13	5,208,636	4,937,755	710,274
Trade and other receivables	15	7,342,719	7,311,347	1,051,705
Other current assets	14	16,773	16,710	2,404
Cash and cash equivalents	16	4,788,219	4,451,489	640,327
Short-term bank deposits	16	357,335	351,567	50,571
Restricted cash	16	76,001	27,687	3,983
		17,789,683	17,096,555	2,459,264
Total assets		24,905,309	24,137,556	3,472,080

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

	Note	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	18	2,081,138	2,081,138	299,362
Statutory reserves	20	309,237	335,735	48,294
Capital reserves	20	30,704	(4,196)	(604)
Retained earnings		6,578,865	6,661,264	958,193
Other components of equity	20	(140,792)	(64,995)	(9,349)
Equity attributable to equity holders of the Company		8,859,152	9,008,946	1,295,896
Non-controlling interests		2,756,192	2,826,118	406,525
Total equity		11,615,344	11,835,064	1,702,421
Non-current liabilities				
Loans and borrowings	26	100,000	200,000	28,769
Lease liabilities	25	13,406	28,208	4,058
Contract liabilities	24	69,173	77,339	11,125
Deferred tax liabilities	8	65,544	61,825	8,893
Deferred grants	27	411,658	476,384	68,526
Other financial liability	28	–	45,950	6,610
Other payables	22	188,725	189,366	27,239
		848,506	1,079,072	155,220
Current liabilities				
Trade and other payables	22	9,443,738	8,139,408	1,170,818
Loans and borrowings	26	2,103,000	2,141,432	308,036
Lease liabilities	25	27,125	31,433	4,521
Contract liabilities	24	573,259	617,737	88,859
Provision for taxation		41,309	73,296	10,543
Provision	23	253,028	220,114	31,662
		12,441,459	11,223,420	1,614,439
Total liabilities		13,289,965	12,302,492	1,769,659
Total equity and liabilities		24,905,309	24,137,556	3,472,080

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2020	2,081,138	304,307	30,704	6,456,802	(36,091)	19,758	(77,617)	(11,472)	8,767,529	2,805,856	11,573,385
Profit for the year	–	–	–	548,903	–	–	–	–	548,903	230,423	779,326
Other comprehensive income for the year, net of tax	–	–	–	–	(53,834)	–	(2,103)	–	(55,937)	(10,679)	(66,616)
Total comprehensive income for the year	–	–	–	548,903	(53,834)	–	(2,103)	–	492,966	219,744	712,710
Contributions by and distributions to owners											
Dividends declared and paid (US$0.85 per share)	–	–	–	(245,871)	–	–	–	–	(245,871)	–	(245,871)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(207,514)	(207,514)
Other											
Transfer to statutory reserves	–	2,858	–	(2,858)	–	–	–	–	–	–	–
At December 31, 2020	2,081,138	307,165	30,704	6,756,976	(89,925)	19,758	(79,720)	(11,472)	9,014,624	2,818,086	11,832,710

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

	Attributable to the equity holders of the Company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2021	2,081,138	307,165	30,704	6,756,976	(89,925)	19,758	(79,720)	(11,472)	9,014,624	2,818,086	11,832,710
Profit for the year	–	–	–	272,673	–	–	–	–	272,673	135,221	407,894
Other comprehensive income for the year, net of tax	–	–	–	–	(28,251)	–	48,818	–	20,567	6,638	27,205
Total comprehensive income for the year	–	–	–	272,673	(28,251)	–	48,818	–	293,240	141,859	435,099
Contributions by and distributions to owners											
Dividends declared and paid (US$1.70 per share) (Note 19)	–	–	–	(448,712)	–	–	–	–	(448,712)	–	(448,712)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(203,753)	(203,753)
Other											
Transfer to statutory reserves	–	2,072	–	(2,072)	–	–	–	–	–	–	–
At December 31, 2021	2,081,138	309,237	30,704	6,578,865	(118,176)	19,758	(30,902)	(11,472)	8,859,152	2,756,192	11,615,344

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

	Attributable to the equity holders of the Company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2022	2,081,138	309,237	30,704	6,578,865	(118,176)	19,758	(30,902)	(11,472)	8,859,152	2,756,192	11,615,344
Profit for the year	–	–	–	218,581	–	–	–	–	218,581	117,080	335,661
Other comprehensive income for the year, net of tax	–	–	–	–	73,477	–	311	–	73,788	15,329	89,117
Total comprehensive income for the year	–	–	–	218,581	73,477	–	311	–	292,369	132,409	424,778
Contributions by and distributions to owners											
Contribution by non-controlling interests	–	–	–	–	–	–	–	–	–	53,500	53,500
Dividends declared and paid (US$0.40 per share) (Note 19)	–	–	–	(109,684)	–	–	–	–	(109,684)	–	(109,684)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(103,199)	(103,199)
Change in ownership interests in subsidiaries											
Dilution of interest in subsidiary	–	–	–	–	–	–	–	2,009	2,009	(2,009)	–
Other											
Transfer to statutory reserves	–	26,498	–	(26,498)	–	–	–	–	–	–	–
Issuance of put option to non-controlling interests of subsidiary	–	–	(34,900)	–	–	–	–	–	(34,900)	(10,775)	(45,675)
At December 31, 2022	2,081,138	335,735	(4,196)	6,661,264	(44,699)	19,758	(30,591)	(9,463)	9,008,946	2,826,118	11,835,064
US$'000	299,362	48,294	(604)	958,193	(6,430)	2,842	(4,400)	(1,361)	1,295,896	406,525	1,702,421

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Operating activities				
Profit before tax	971,864	451,710	394,726	56,779
Adjustments:				
Amortization of intangible asset	1,012	38,957	64,939	9,341
Bad debt written off/(recovered)	40	(5)	–	–
Depreciation of:				
– investment property	376	355	348	50
– property, plant and equipment	450,092	492,826	516,276	74,264
– right-of-use assets	43,127	41,458	43,129	6,204
Dividend income from quoted equity securities	(166)	(168)	(13)	(2)
Exchange (gain)/loss	(1,827)	3,271	(273)	(39)
Fair value gain on foreign exchange forward contract	(999)	–	–	–
Fair value loss/(gain) on quoted equity securities	1,196	(138)	–	–
Finance costs	151,170	115,928	95,472	13,733
(Gain)/loss on disposal of:				
– associate [i]	–	–	(1,329)	(191)
– property, plant and equipment	4,183	(1,224)	(6,535)	(940)
– quoted equity securities	(874)	(5,416)	(2,291)	(330)
– right-of-use assets	(2,574)	(14,714)	(3,929)	(565)
Government grants	(209,793)	(152,932)	(176,264)	(25,355)
Interest income	(166,970)	(132,083)	(131,879)	(18,970)
Impairment losses on:				
– investment in joint venture	–	–	990	142
– property, plant and equipment	3,920	7,227	17,278	2,485
(Reversal of impairment losses)/impairment losses on trade receivables	(13,849)	(7,987)	41	6
Impairment losses /(reversal of impairment losses) on non-trade receivables	638	(538)	(500)	(72)
Impairment losses/(reversal of write-down) of inventories, net	27,978	(9,010)	54,885	7,895
Inventories written off	–	10,085	–	–
Property, plant and equipment written off	7,417	1,134	3,295	474
Provision/(reversal) for onerous contract, net	11,323	(8,810)	(4,829)	(694)
Share of loss of associates and joint ventures, net of tax	58,970	95,895	29,093	4,185
Write-back of trade and other payables	(1,052)	–	–	–
Profit before tax after adjustments	1,335,202	925,821	892,630	128,400

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Changes in working capital				
(Increase)/decrease in inventories	(1,687,639)	(740,835)	185,879	26,738
(Increase)/decrease in trade and other receivables and capitalized contract cost	(238,571)	1,300,470	(7,411)	(1,066)
Increase/(decrease) in trade and other payables and contract liabilities	2,241,327	(809,978)	(1,169,482)	(168,225)
Increase in development properties	(75)	(202)	(25)	(4)
Cash flows from/(used in) operating activities	1,650,244	675,276	(98,409)	(14,157)
Income taxes paid	(234,876)	(170,720)	(21,010)	(3,022)
Net cash flows from/(used in) operating activities	1,415,368	504,556	(119,419)	(17,179)
Investing activities				
Additional investment in a joint venture	–	(17,640)	(1,950)	(280)
Development costs	(500,147)	(287,480)	(166,283)	(23,919)
Dividend received from:				
– quoted equity securities	166	135	47	7
Interest received	171,556	125,004	131,331	18,891
Proceeds from disposal of:				
– associate (i)	–	–	1,000	144
– property, plant and equipment	2,385	405	9,232	1,328
– quoted equity securities	1,354	6,485	641	92
– right-of-use assets	5,772	34,123	7,185	1,034
Proceeds from government grants	123,178	51,862	193,156	27,785
Purchase of property, plant and equipment	(584,676)	(572,047)	(430,966)	(61,993)
(Placement)/withdrawal of fixed deposits with banks, net	(5,341)	(79,695)	123,559	17,773
Net cash flows used in investing activities	(785,753)	(738,848)	(133,048)	(19,138)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Financing activities				
Dividends paid to:				
– equity holders of the Company	(245,871)	(448,712)	(109,684)	(15,778)
– non-controlling interests	(205,525)	(223,917)	(102,299)	(14,715)
Interest paid and discounting on bills	(148,793)	(115,813)	(95,717)	(13,768)
Contribution by non-controlling interests	–	–	53,500	7,696
Payment of principal portion of lease liabilities	(35,363)	(23,121)	(24,597)	(3,538)
Proceeds from borrowings	2,230,000	1,938,920	2,048,432	294,658
Repayment of borrowings	(2,056,280)	(1,965,920)	(1,910,000)	(274,745)
Net cash flows used in financing activities	(461,832)	(838,563)	(140,365)	(20,190)
Net increase/(decrease) in cash and cash equivalents	167,783	(1,072,855)	(392,832)	(56,507)
Cash and cash equivalents at January 1	5,753,268	5,877,647	4,788,219	688,764
Effect of exchange rate changes on balances in foreign currencies	(43,404)	(16,573)	56,102	8,070
Cash and cash equivalents at December 31	5,877,647	4,788,219	4,451,489	640,327

Note:

(i) In November 2022, Yuchai's subsidiary company, Guangxi Yuchai Mould Equipment Company Limited, disposed its entire shareholding in its associate company, Guangxi Yuchai Quan Xing Machinery Co., Ltd., to a third party for a cash consideration of RMB 2.0 million (US$ 0.3 million) and a gain on disposal of RMB 1.3 million (US$ 0.2 million) was recognized in the consolidated statement of profit or loss under "Other income". Partial proceeds of RMB 1.0 million (US$ 0.1 million) was received in November 2022 and the remaining balance was received in January 2023 upon completion of the disposal.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2022 were authorized for issue in accordance with a resolution of the directors on April 26, 2023.

China Yuchai International Limited is a limited company incorporated under the laws of Bermuda on April 29, 1993 whose shares are publicly traded. The registered office of the Company is located at 2 Clarendon House, Church Street, Hamilton HM11, Bermuda. On March 7, 2008, the Company registered a branch office in Singapore, located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581. The principal operating office is located at 16 Raffles Quay #39-01A, Hong Leong Building, Singapore 048581.

1.2 Investment in Guangxi Yuchai Machinery Company Limited

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 and distributes engines for on-road and off-road applications in the People's Republic of China (the "PRC").

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

As of December 31, 2022, Yuchai has 10 (2021: 11) direct and 32 (2021: 33) indirectly owned subsidiaries and five joint ventures (2021: four joint ventures and one associate). Guangxi Yuchai Machinery Monopoly Development Co., Ltd. ("YMMC"), Guangxi Yuchai Marine and Genset Power Co., Ltd ("MPG"), Yuchai Xin-Lan New Energy Power Technology Co., Ltd ("Yuchai Xin-Lan"), and Guangxi Yuchai Foundry Co., Ltd (formerly known as Guangxi Yuchai Accessories Manufacturing Co., Ltd) are the most significant subsidiaries of Yuchai. YMMC has 27 (2021: 29) wholly-owned subsidiaries (collectively "YMMC Group") located at various provinces in the PRC. The principal business of YMMC Group are trading and distribution of components of diesel engines and automobiles. MPG has taken over the operations of Yuchai's marine and power generation unit since December 2021. The principal business of Yuchai Xin-Lan is to research, develop and construct new production capacity for Yuchai's new energy technologies including fuel cell systems, range extenders, hybrid power, electric drive system, etc. The principal business activities of Guangxi Yuchai Foundry Co., Ltd is to cast, manufacture and distribute engine components.

The detailed information of Yuchai's significant subsidiaries and joint ventures are disclosed in Notes 4 and 5.

As used in this Consolidated Financial Statements, the term "Yuchai" refer to Guangxi Yuchai Machinery Company Limited and its subsidiaries.

1.3 Investment in HL Global Enterprises Limited

In February 2006, the Group acquired debt and equity securities interest in HL Global Enterprises Limited ("HLGE") through the Group's wholly-owned subsidiaries, Grace Star Limited ("Grace Star") and Venture Lewis Limited ("Venture Lewis'). HLGE is a public company listed on the Main Board of the Singapore Exchange Securities Trading Limited ("Singapore Exchange") and primarily engaged in investment holding, and through its group companies, invests in rental property, hospitality and property developments in Asia.

The Group's shareholding has changed through various transactions, the Group's equity interest in HLGE was 49.4% as of December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION (cont'd)

1.3 Investment in HL Global Enterprises Limited (cont'd)

On January 13, 2012, Grace Star transferred 24,189,170 Series B redeemable convertible preference shares ("RCPS"), representing 100% of remaining unconverted Series B RCPS, in the capital of HLGE (the "Trust Preference Shares") to the Trustee pursuant to a trust deed entered into between HLGE and the Trustee. On January 16, 2012, the Trust Preference Shares were mandatorily converted into 24,189,170 new ordinary shares in the capital of HLGE (the "Trust Shares") resulting in the Group's shareholding interest in HLGE decreased from 49.4% to 48.1%. On April 4, 2012, as a result of the conversion of all the outstanding Series A redeemable convertible preference shares held by Venture Delta Limited and Grace Star, into new ordinary shares in the capital of HLGE, the Group's shareholding interest in HLGE increased from 48.1% to 48.9%. The Trust Shares are accounted for as treasury shares by HLGE, issued by HLGE and held by the Trust, which is considered as part of HLGE. As a result, the Group's shareholding interest in HLGE is stated as 50.1%, based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust.

As of December 31, 2013, the Group's interest in HLGE remained at 50.1%, based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust.

In 2014, the Group purchased in the open market an aggregate of 465,000 ordinary shares in the capital of HLGE. As of December 31, 2014, the Group's interest in HLGE increased from 50.1% to 50.2%, net of the ordinary shares held by the Trustee under the Trust.

In 2015, HLGE undertook a share consolidation exercise to consolidate every 10 ordinary shares in the capital of HLGE into one ordinary share. Upon completion of the share consolidation exercise, the Group held 47,107,707 ordinary shares of HLGE. As of December 31, 2015, the Group's interest in HLGE was 50.2%, net of the ordinary shares held by the Trustee under the Trust.

As of December 31, 2021 and 2022, the Group's shareholding interest in HLGE remains at 50.2%, net of the ordinary shares held by the Trustee under the Trust.

The Group considers HLGE as a subsidiary as it has power to exercise effective control and direct the activities of HLGE that most significantly affect its economic performance and has the exposure or rights to receive benefits from HLGE from its involvement.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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").

The consolidated financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000"), except when otherwise indicated.

Translation of amounts from Renminbi to the United States Dollar ("US Dollar") is solely for the convenience of the reader. Translation of amounts from Renminbi to US Dollar has been made at the rate of RMB 6.9519 = US$ 1.00, the rate quoted by the People's Bank of China at the close of business on February 28, 2023 and all values are rounded to the nearest thousand ("US$'000"), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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 combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Where the Group had granted put option to third party investors (non-controlling interests) for their investments in subsidiaries, the Group recognized a financial liability based on the present value of the amount payable upon exercise of the put. A corresponding amount to equity attributable to the parent (capital reserves) will be recognized.

(b) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(b) Investments in associates and joint ventures (cont'd)

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When 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 recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss within "Share of profit/(loss) of associates and joint ventures, net of tax" in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

(c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(c) Current versus non-current classification (cont'd)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Fair value measurement

The Group measures financial instruments, such as quoted equity securities and bills receivable and a foreign exchange forward contract, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value related disclosures for financial instruments that are measured at fair value are summarized in the following notes:

- Quoted equity securities — Note 34
- Bills receivable — Note 34
- Foreign exchange forward contract — Note 34

(e) Foreign currency translation

The Company's functional currency is US Dollar. The Group's consolidated financial statements are presented in Renminbi, which is also 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's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Transactions and balances (cont'd)

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liabilities relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates during the reporting period. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(f) Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Sale of engines

Revenue from sale of engines is recognized at the point in time when control of the engine is transferred to the customer, generally on delivery of the engines, or, in some cases, when the engines are installed by the customers.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties). In determining the transaction price for the sale of engines, the Group considers the effects of variable consideration and the existence of significant financing components.

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception. Some contracts for the sale of engines provide customers with sales rebates based on the sales volume. The sales rebates give rise to variable consideration.

Sales rebates

The Group enters into contractual arrangements to provide certain customers with sales rebates when the quantity of products purchased during the period exceeds a threshold specified in the contract. Based on contractual arrangement with the customers, the sales rebates are netted against "Trade receivables". If the receivables had been settled by the customers, amounts in excess of "Trade receivables" will be recognized as refund liabilities in "Trade and other payables".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue from Contracts with Customers (cont'd)

Sale of engines (cont'd)

(i) Variable consideration (cont'd)

Sales Returns

The Group does not extend its sales returns policy to all customers. However the Group allows for certain returns, only on a case-by-case basis. The Group uses the expected value method to estimate the provision for such returns based on the historical return rates and account for it as a reduction in revenue and form part of refund liability that is recognized in "Trade and other payables" (Note 22). A corresponding right of return assets is recognized in "Trade and other receivables" (Note 15).

(ii) Significant financing component

The Group receives advance payments from customers for the sale of engines. The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

Warranty obligations

The Group typically provides warranties for general repairs of defects as part of the sale of engines. These assurance-type warranties are accounted for as warranty provisions. Refer to the accounting policy on warranty provisions in Section (s) *Provisions*.

Certain contracts provide a customer with maintenance service, i.e. a distinct service to the customer in addition to the assurance that the product complies with agreed upon specification. These service-type warranties are bundled together with the sale of engines. Contracts for bundled sale of engines and a service-type warranty comprise two performance obligations because the promises to transfer the engines and to provide the service-type warranty are capable of being distinct. Using a combination of expected cost-plus margin and residual approaches, the transaction price is allocated to the service-type warranty and engines with the former performance obligation recognizing a corresponding contract liability. Revenue for service-type warranties is recognized at the point in time when the service-type warranty is provided.

Sale of completed development properties

Revenue is recognized when control of the property has been transferred to the customer, either over time or at a point in time, depending on the contractual terms and the practices in the legal jurisdictions.

For development properties whereby the Group is restricted contractually from directing the properties for another use as they are being developed and has an enforceable right to payment for performance completed to date, revenue is recognized over time, based on the construction and other costs incurred to-date as a proportion of the estimated total construction and other costs to be incurred.

For development properties whereby the Group does not have an enforceable right to payment for performance completed to date, revenue is recognized when the customer obtains control of the asset.

Rendering of services

Revenue from rendering services relates to project management contracts, and hotel room and restaurant operations. Revenue is recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue from Contracts with Customers (cont'd)

Contract balances

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Section (m) *Financial instruments – Initial recognition and subsequent measurement.*

Contract liabilities

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right of return assets

A right-of-return asset is recognized for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return and sales rebates. Based on contractual arrangement with the customers, sales rebates are netted against "Trade receivables". If the receivables had been settled by the customers, amounts in excess of "Trade receivables" will be recognized as refund liabilities.

Refund liabilities arising from contractual sales returns is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities arising from sales returns at the end of each reporting period.

Costs to fulfil a contract

Costs to fulfil a contract are capitalized if the costs relate directly to the contract, generate or enhance resources used in satisfying the contract and are expected to be recovered. Other contract costs are expensed as incurred.

Capitalized contract costs are subsequently recognized in profit or loss as the Group recognizes the related revenue. An impairment loss is recognized in profit or loss to the extent that the carrying amount of the capitalized contract costs exceeds the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the contract costs relates less the costs that relate directly to providing the goods and that have not been recognized as expenses.

(g) 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 on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes

Current income tax

Current income tax assets and liabilities 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 at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. 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 provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When 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 recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables 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.

(i) Cash dividend and non-cash distribution to equity holders of the Company

The Company recognizes a liability to make cash or non-cash distributions to equity holders of the Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value measurement recognized directly in equity.

Upon distribution of non-cash asset, any difference between the carrying amount of the liabilities and the carrying amount of the assets distributed is recognized in the statement of profit or loss.

(j) Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized 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 recognized in profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(j) Property, plant and equipment (cont'd)

Freehold land has an unlimited useful life and therefore is not depreciated. Asset under construction included in property, plant and equipment are not depreciated as these assets are not yet ready for intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Freehold buildings	:	50 years
Leasehold buildings and improvements	:	50 years or period of lease, whichever is shorter
Plant, machinery and equipment	:	2 to 20 years
Office furniture, fittings and equipment	:	2 to 20 years
Motor and transport vehicles	:	4 to 11 years

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

The residual values, useful lives and methods of depreciation of property, plant and equipment 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 weighted average cost of the Group's general borrowings and actual interest incurred for specific borrowings. Repairs and maintenance of a routine nature are expensed while those that extend the life of assets are capitalized.

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.

(k) Investment properties

Investment properties are properties owned by the Group that are held to lease to third parties and earn rentals rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties.

Investment properties are initially recognized at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment losses. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the investment properties. The estimated useful life is 30 years. Depreciation methods, useful lives and residual values of investment properties are reassessed at each reporting date.

Investment properties are derecognized either when they have been disposed of (i.e., at the date recipient obtains control) or when they are 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 recognized in profit or loss in the period of de-recognition. In determining the amount of consideration from the de-recognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. Under cost model, the transfer does not change the carrying amount of the property transferred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development costs

Research costs are expensed as incurred.

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Goodwill

Accounting policy for goodwill is separately discussed in Note 2.3(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

A summary of the policies applied to the Group's intangible assets is as follows:

	Trademarks	Technology know-how	Development costs
Useful lives	Indefinite	8 years	*
Amortization method used	No amortization	Amortized on a straight-line basis over the period of the technology know-how	*
Internally generated or acquired	Acquired	Internally generated	Internally generated

* Development costs relate to on-going development projects that have not been completed and are not available for use.

(m) Financial instruments – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or which the Group has applied the practical expedient are measured at the transaction price as disclosed in Section (f) *Revenue from Contracts with Customers.*

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest ("SPPI")" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments – Initial recognition and subsequent measurement (cont'd)

Financial assets (cont'd)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade and other receivables, and certain bills receivables that are held to maturity.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon de-recognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes certain bills receivable that are not held to maturity.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have equity instruments measured under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments – Initial recognition and subsequent measurement (cont'd)

Financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets at fair value through profit or loss (cont'd)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset has expired; or
- 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes 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 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

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Debt instruments at fair value through OCI represented by bills receivable (Note 15)
- Trade receivables (Note 15)

The Group recognizes an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments – Initial recognition and subsequent measurement (cont'd)

Financial assets (cont'd)

Impairment (cont'd)

ECLs are recognized in two stages. For credit exposure for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a "12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized for credit losses expected over the remaining life of the exposure irrespective of timing of the default (a "lifetime ECL").

For trade receivable, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplifications. At every reporting date, the Group evaluate whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making the evaluation, the Group reassesses the external credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of bills receivable. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are more than 360 days from the invoice date. However, in certain cases the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering contractual cash flow.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings, lease liabilities, other liabilities and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments – Initial recognition and subsequent measurement (cont'd)

Financial liabilities (cont'd)

Subsequent measurement (cont'd)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include 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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. 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 recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortized cost

This is the category most relevant to the Group. After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to loans and borrowings, lease liabilities, other liabilities and payables. For more information, refer to Note 22, 25, 26 and 28.

De-recognition

A financial liability is derecognized 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 the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

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

(n) Inventories

Inventories are valued at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(n) Inventories (cont'd)

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Investment in joint ventures (Note 5)
- Property, plant and equipment (Note 10)
- Investment property (Note 11)
- Intangible assets (Note 12)
- Right-of-use assets (Note 17)

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 CGU's fair value less costs of disposal and its value in use. The recoverable amount 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. When 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of seven to ten years. A long-term growth rate is calculated and applied to project future cash flows after the tenth year where appropriate. Impairment losses are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(o) Impairment of non-financial assets (cont'd)

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(q) Leases

The Group assess at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, expect for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets, as follows:

• Leasehold land	3 to 50 years
• Building and office space	1 to 6 years
• Office furniture, fittings and equipment	5 years
• Motor vehicles	12 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subjected to impairment. Refer to the accounting policies in Section (o) *Impairment of non-financial assets*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Group as a lessee (cont'd)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substances fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying assets.

(iii) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of land and building (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(s) Provisions

General

Provisions are recognized 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss 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, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(s) Provisions (cont'd)

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs relating to the assurance-type warranties, 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. For on-road applications engines, warranties extend for a duration (generally 3 to 36 months) or mileage (generally 5,000 to 300,000 kilometers), whichever materializes first. For other applications engines, warranties extend for a duration of generally 2 to 36 months or running hours of 300 to 7,000 hours, whichever materializes first. 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. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

Onerous contract

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

(t) Pensions and other post-employment benefits

Defined contribution plans

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 to defined contribution pension schemes are recognized as an expense in the period in which the related services are performed.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

(u) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.3 Summary of significant accounting policies (cont'd)

(u) Share-based payments (cont'd)

Equity-settled transactions (cont'd)

That cost is recognized in "Staff costs", together with a corresponding increase in performance share reserve in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, provided the original terms of the award are met. An additional expense, measured as of the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 9).

(v) Development properties

Development properties are properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for the Group's own use, rental or capital appreciation.

Development properties are held as other asset and are measured at the lower of cost and net realizable value.

Costs to complete development include cost of land and other direct and related development expenditure, including borrowing costs incurred in developing the properties.

Net realizable value of development properties is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

The costs of development properties recognized in profit or loss on disposal are determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

(w) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit or loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – *Amendments to IAS 37*

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the consolidated financial statements of the Group as the Group didn't not include the general and administrative costs that do not relate to the contract.

Reference to the Conceptual Framework – *Amendments to IFRS 3*

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – *Amendments to IAS 16*

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first time adopter.

IFRS 9 *Financial Instruments – Fees in the "10 per cent" test for de-recognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement.*

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

2.5 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact.

Definition of Accounting Estimates - *Amendments to IAS 8*

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.5 Standards issued but not yet effective (cont'd)

Disclosure of Accounting Policies - *Amendments to IAS 1 and IFRS Practice Statement 2*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact that will have on the Group's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - *Amendments to IAS 12*

In May 2021, the IASB issued *amendments to IAS 12*, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the IASB expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Group.

Lease Liability in a Sale and Leaseback - *Amendments to IFRS 16*

In September 2022, the IASB issued Lease Liability in a Sale and Leaseback (*Amendments to IFRS 16*). The *amendment to IFRS 16 Leases* specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

The amendment is intended to improve the requirements for sale and leaseback transactions in IFRS 16. It does not change the accounting for leases unrelated to sale and leaseback transactions.

The amendment applies retrospectively to annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The amendments are not expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.5 Standards issued but not yet effective (cont'd)

Amendments to IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Group.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management (Note 33)
- Financial risk management objectives and policies (Note 32)
- Sensitivity analyses disclosures (Note 12 and 32)

3.1 Judgments

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 recognized in the consolidated financial statements:

Revenue from Contracts with Customers

The Group applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identifying contract price and performance obligations in sales of engines*

The Group provides certain warranties for both general repairs and maintenance service as part of the sales of engines. For general repairs, such warranties will be assurance-type warranty that will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* For maintenance services, it will be accounted for as a service-type warranties that are capable of being distinct and customers can benefit from the service on its own. Hence, the Group identified two separate performance obligation, one is the promise to transfer the engine and the other one is to provide maintenance services after reaching certain on-road mileage or running hours. Consequently, the Group allocated a portion of the transaction price to the engines and the maintenance services based on a combination of expected cost plus a margin and residual approaches. Please refer to Note 6.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

3.1 Judgments (cont'd)

Derecognition of bills receivable

The Group sell certain bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. The Group also endorse certain bills to suppliers for debts settlement. Chinese law governing bills allows recourse to be traced to all the parties in the discounting and endorsing process. In relation to the derecognition of bills receivable when discounted and endorsed, the management assess the credit rating of the banks that issued these bills, consider the designated commercial banks by China regulatory are high credit rating and believe that the contractual right to receive the cash flows from the asset have terminated with the Group, but transferred to the banks and suppliers. Accordingly, the respective bills receivables were derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 15.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits. The carrying amounts of deferred tax assets as of December 31, 2021 and 2022 are RMB 398.2 million and RMB 450.9 million (US$ 64.9 million) respectively. The deferred tax assets of the Group primarily relate to unutilized tax losses, unutilized capital allowances and investment allowances, as well as other unrecognized temporary differences relating to asset impairment and deferred grants. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 157.3 million (US$ 22.6 million) for year ended December 31, 2022 (2021: RMB 159.2 million).

Development costs

Development costs are capitalized in accordance with the accounting policy in Note 2.3 (l). Capitalization of development costs requires the application of management judgment to determine, what continues to constitute development activities and when a development project should cease further capitalization of development costs. Management judgment is also required to ascertain the nature of expenses that qualify for capitalization. Please refer to Note 12.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the forecasts for the next seven to ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, development costs and trademarks recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. 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 31.12.2021 %	Group's effective equity interest 31.12.2022 %
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Marine and Genset Power Co., Ltd.	People's Republic of China	76.4	76.4
Yuchai Xin-Lan New Energy Power Technology Co., Ltd	People's Republic of China	76.4	69.5
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Guangxi Yuchai Foundry Co., Ltd (formerly known as Guangxi Yuchai Accessories Manufacturing Company Limited)	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

The Group has the following subsidiary that has non-controlling interests ("NCI") that are material to the Group.

	31.12.2020	31.12.2021	31.12.2022
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Accumulated balances of material NCI				
Yuchai	2,624,933	2,574,669	2,627,354	377,933
Profit allocated to material NCI				
Yuchai	229,231	153,500	114,700	16,499
Dividends paid to material NCI				
Yuchai	207,514	203,753	103,199	14,845

Summarized financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

	31.12.2020 Yuchai RMB'000
Summarized statement of comprehensive income	
Revenue	20,557,660
Profit after tax	829,042
Total comprehensive income for the year	826,214
Attributable to NCI	229,231
Summarized statement of cash flows	
Operating	1,476,034
Investing	(794,291)
Financing	(505,997)
Net increase in cash and cash equivalents	175,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (cont'd)

	31.12.2021
	Yuchai RMB'000
Summarized statement of financial position	
Current assets	16,872,371
Non-current assets, excluding goodwill	6,812,500
Goodwill	212,636
Current liabilities	(12,424,968)
Non-current liabilities	(781,986)
Net assets	10,690,553
Total equity	10,690,553
Attributable to NCI	2,574,669
Summarized statement of comprehensive income	
Revenue	21,254,134
Profit after tax	443,499
Total comprehensive income for the year	506,769
Attributable to NCI	153,500
Summarized statement of cash flows	
Operating	588,727
Investing	(674,686)
Financing	(1,002,764)
Net increase in cash and cash equivalents	(1,088,723)

	31.12.2022	
	Yuchai	
	RMB'000	US$'000
Summarized statement of financial position		
Current assets	16,070,488	2,311,668
Non-current assets, excluding goodwill	6,737,117	969,104
Goodwill	212,636	30,587
Current liabilities	(11,204,417)	(1,611,706)
Non-current liabilities	(1,016,521)	(146,222)
Net assets	10,799,303	1,553,431
Total equity	10,799,303	1,553,431
Attributable to NCI	2,627,354	377,933
Summarized statement of comprehensive income		
Revenue	15,998,041	2,301,247
Profit after tax	355,140	51,085
Total comprehensive income for the year	355,936	51,200
Attributable to NCI	114,700	16,499
Summarized statement of cash flows		
Operating	(82,444)	(11,859)
Investing	(221,126)	(31,808)
Financing	(181,072)	(26,046)
Net increase in cash and cash equivalents	(484,642)	(69,713)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (cont'd)

Significant restrictions

The nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of subsidiaries with material non-controlling interests are:

At the end of the reporting period, cash and cash equivalents of RMB 3,717.3 million (US$ 534.7 million) (2021: RMB 4,200.5 million) held in the PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

Dilution of ownership in subsidiary, without loss of control in 2022

In November 2022, Yuchai's wholly owned subsidiary, Yuchai Xin-Lan issued additional ordinary shares to non-controlling interest for cash consideration of RMB 50.0 million (US$ 7.2 million). As a result, Yuchai's shareholding in Yuchai Xin-Lan decreased to 90.9%.

5. INVESTMENT IN JOINT VENTURES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Share of (loss)/profit of joint ventures, net of tax:				
Y & C Engine Co., Ltd	(44,016)	(125,853)	(54,116)	(7,784)
MTU Yuchai Power Co., Ltd.	3,238	28,037	40,279	5,794
Guangxi Purem Yuchai Automotive Technology Co., Ltd.	(19,157)	1,377	(11,278)	(1,622)
Other joint ventures	513	454	(2,431)	(350)
	(59,422)	(95,985)	(27,546)	(3,962)

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Carrying amount of investments:			
Y & C Engine Co., Ltd	22,821	488	70
MTU Yuchai Power Co., Ltd	89,481	128,140	18,432
Guangxi Purem Yuchai Automotive Technology Co., Ltd.	31,655	20,377	2,931
Other joint ventures	7,138	5,698	820
	151,095	154,703	22,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

Details of significant joint ventures of the Group are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest	
			31.12.2021 %	31.12.2022 %
Held by subsidiaries				
Y & C Engine Co., Ltd ("Y&C")	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	34.4	34.4
MTU Yuchai Power Co., Ltd ("MTU Yuchai Power")	Manufacture off-road diesel engines	People's Republic of China	38.2	38.2
Guangxi Purem Yuchai Automotive Technology Co., Ltd. ("Purem") (formerly known as Eberspaecher Yuchai Exhaust Technology Co. Ltd)	Application development, production, sales and service on engine exhaust control systems	People's Republic of China	37.4	37.4

The Group assess impairment of investments when adverse events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the recoverable amount of investment is below its carrying amount, an impairment charge is recognized. The Group performs evaluation of the value of its investment using a discounted cash flows projection or fair value less cost of disposal where appropriate. The projection will be performed using historical trends as a reference and certain assumptions to project the future streams of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

In 2021 and 2022, the Group has performed an impairment evaluation of its investments in joint ventures. In 2022, impairment loss of RMB 1.0 million (US$ 0.1 million) (2021: RMB Nil) was charged to the consolidated statement of profit or loss under "Other operating expenses".

	31.12.2020			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Purem RMB'000	Total RMB'000
Revenue	3,021,877	307,699	45,966	3,375,542
Depreciation and amortization	(59,406)	(2,350)	(360)	(62,116)
Interest expense	(40,709)	(1,983)	–	(42,692)
Profit/(loss) for the year, representing total comprehensive income for the year	(88,785)	6,421	(39,095)	(121,459)
Proportion of the Group's ownership	45%	50%	49%	
Group's share of profit/(loss)	(39,953)	3,211	(19,157)	
Unrealized profit on transactions with joint venture	(4,063)	27	–	
Group's share of profit/(loss) of significant joint ventures	(44,016)	3,238	(19,157)	(59,935)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				513
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(59,422)

	31.12.2021			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Purem RMB'000	Total RMB'000
Non-current assets	660,856	89,749	71,858	822,463
Current assets				
– Cash and bank balances	179,779	63,609	2,105	245,493
– Others	817,972	310,394	99,352	1,227,718
Total assets	1,658,607	463,752	173,315	2,295,674
Non-current liabilities	(362,779)	–	(14,109)	(376,888)
Current liabilities	(1,147,416)	(271,521)	(94,604)	(1,513,541)
Total liabilities	(1,510,195)	(271,521)	(108,713)	(1,890,429)
Equity	148,412	192,231	64,602	405,245
Proportion of the Group's ownership	45%	50%	49%	
Group's share of net assets	66,785	96,116	31,655	
Unrealized profit on transactions with joint venture	(43,964)	(6,635)	–	
Carrying amount of significant joint ventures	22,821	89,481	31,655	143,957
Carrying amount of other joint ventures				7,138
Carrying amount of the investment in joint ventures				151,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

	31.12.2021			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Purem RMB'000	Total RMB'000
Revenue	2,072,721	467,800	157,316	2,697,837
Depreciation and amortization	(52,881)	(2,377)	(709)	(55,967)
Interest expense	(51,836)	(1,850)	(41)	(53,727)
Profit/(loss) for the year, representing total comprehensive income for the year	(282,205)	54,526	2,811	(224,868)
Proportion of the Group's ownership	45%	50%	49%	
Group's share of profit/(loss)	(126,992)	27,263	1,377	
Unrealized profit on transactions with joint venture	1,139	774	–	
Group's share of profit/(loss) of significant joint ventures	(125,853)	28,037	1,377	(96,439)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				454
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(95,985)

	31.12.2022				
	Y & C RMB'000	MTU Yuchai Power RMB'000	Purem RMB'000	Total RMB'000	Total US$'000
Non-current assets	616,161	89,353	60,439	765,953	110,179
Current assets					
– Cash and bank balances	97,741	291,807	26,744	416,292	59,882
– Others	502,174	209,696	31,512	743,382	106,932
Total assets	1,216,076	590,856	118,695	1,925,627	276,993
Non-current liabilities	(145,418)	–	–	(145,418)	(20,918)
Current liabilities	(987,638)	(334,576)	(77,109)	(1,399,323)	(201,286)
Total liabilities	(1,133,056)	(334,576)	(77,109)	(1,544,741)	(222,204)
Equity	83,020	256,280	41,586	380,886	54,789
Proportion of the Group's ownership	45%	50%	49%		
Group's share of net assets	37,359	128,140	20,377		
Unrealized profit on transactions with joint venture	(36,871)	–	–		
Carrying amount of significant joint ventures	488	128,140	20,377	149,005	21,433
Carrying amount of other joint ventures				5,698	820
Carrying amount of the investment in joint ventures				154,703	22,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

	31.12.2022				
	Y & C RMB'000	MTU Yuchai Power RMB'000	Purem RMB'000	Total RMB'000	Total US$'000
Revenue	1,255,967	594,197	69,380	1,919,544	276,118
Depreciation and amortization	(29,617)	(9,733)	(7,726)	(47,076)	(6,772)
Interest expense, net	(30,547)	470	(469)	(30,546)	(4,394)
Profit/(loss) for the year, representing total comprehensive income for the year	(65,961)	66,076	(23,016)	(22,901)	(3,294)
Proportion of the Group's ownership	45%	50%	49%		
Group's share of profit/(loss)	(29,682)	33,038	(11,278)		
Unrealized profit on transactions with joint venture	(24,434)	7,241	–		
Group's share of profit/(loss) of significant joint ventures	(54,116)	40,279	(11,278)	(25,115)	(3,612)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				(2,431)	(350)
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(27,546)	(3,962)

Note:

As of December 31, 2022, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 3.5 million (US$ 0.5 million) (2021: RMB 7.0 million).

As of December 31, 2022, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB 5.9 million (US$ 0.8 million) (2021: RMB 213.9 million).

As of December 31, 2022, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 39.7 million (US$ 5.7 million) (2021: RMB 33.1 million).

Significant restrictions

The nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of joint ventures are:

The Group's share of cash and cash equivalents of RMB 163.0 million (US$ 23.4 million) (2021: RMB 39.6 million) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

As of December 31, 2022, the Group's share of restricted cash of RMB 40.5 million (US$ 5.8 million) (2021: RMB 74.5 million) which was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2022, the Group's share of bills receivables of RMB 2.3 million (US$ 0.3 million) (2021: RMB 22.0 million) which was used as collateral by banks for the issuance of bills to suppliers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

6.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	31.12.2020		
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**
Type of goods or services			
Heavy-duty engines	6,725,312	–	6,725,312
Medium-duty engines	6,626,629	–	6,626,629
Light-duty engines	2,356,168	–	2,356,168
Other products and services (i)	4,809,921	–	4,809,921
Revenue from hospitality operations	39,630	23,510	63,140
Total revenue from contracts with customers	20,557,660	23,510	20,581,170
Geographical markets			
People's Republic of China	20,504,288	–	20,504,288
Other countries	53,372	23,510	76,882
Total revenue from contracts with customers	20,557,660	23,510	20,581,170
Timing of revenue recognition			
At a point in time	20,518,030	–	20,518,030
Over time	39,630	23,510	63,140
Total revenue from contracts with customers	20,557,660	23,510	20,581,170

	31.12.2021		
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**
Type of goods or services			
Heavy-duty engines	7,410,771	–	7,410,771
Medium-duty engines	7,065,283	–	7,065,283
Light-duty engines	2,429,745	–	2,429,745
Other products and services (i)	4,304,918	77	4,304,995
Revenue from hospitality operations	43,417	11,719	55,136
Total revenue from contracts with customers	21,254,134	11,796	21,265,930
Geographical markets			
People's Republic of China	21,206,280	–	21,206,280
Other countries	47,854	11,796	59,650
Total revenue from contracts with customers	21,254,134	11,796	21,265,930
Timing of revenue recognition			
At a point in time	21,210,718	8,067	21,218,785
Over time	43,416	3,729	47,145
Total revenue from contracts with customers	21,254,134	11,796	21,265,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE FROM CONTRACTS WITH CUSTOMERS (cont'd)

6.1 Disaggregated revenue information (cont'd)

	31.12.2022			
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**	**Total US$'000**
Type of goods or services				
Heavy-duty engines	5,061,991	–	5,061,991	728,145
Medium-duty engines	5,066,622	–	5,066,622	728,811
Light-duty engines	1,910,923	–	1,910,923	274,878
Other products and services [(i)]	3,910,703	176	3,910,879	562,563
Revenue from hospitality operations	47,527	32,694	80,221	11,539
Total revenue from contracts with customers	15,997,766	32,870	16,030,636	2,305,936
Geographical markets				
People's Republic of China	15,886,210	–	15,886,210	2,285,161
Other countries	111,556	32,870	144,426	20,775
Total revenue from contracts with customers	15,997,766	32,870	16,030,636	2,305,936
Timing of revenue recognition				
At a point in time	15,950,239	7,702	15,957,941	2,295,479
Over time	47,527	25,168	72,695	10,457
Total revenue from contracts with customers	15,997,766	32,870	16,030,636	2,305,936

Note:

(i) included sales of power generator sets, engine components, service-type maintenance services and others.

6.2 Contract balances

	31.12.2021 RMB'000	**31.12.2022 RMB'000**	**31.12.2022 US$'000**
Trade receivables (Note 15)	331,235	1,516,215	218,101
Capitalized contract cost	147,499	197,692	28,437
Contract liabilities (Note 24)	642,432	695,076	99,984

The contract liabilities comprise short-term advance received from customers and unfulfilled service-type maintenance service. The advance received from customers is recognized as revenue upon the delivery of goods, and the contract liability arising from unfulfilled service-type warranty is recognized upon the completion of the maintenance services. According to the business customary practice, the remaining performance obligations (unfulfilled service-type maintenance service) at the year-end is expected to be satisfied within 2 years.

(a) Set out below is the amount of revenue recognized from:

	31.12.2021 RMB'000	**31.12.2022 RMB'000**	**31.12.2022 US$'000**
Amounts included in contract liabilities	874,391	544,495	78,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE FROM CONTRACTS WITH CUSTOMERS (cont'd)

6.2 Contract balances (cont'd)

(b) Capitalized contract costs

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Capitalized contract costs relating to the projects on development of technology know-how			
At January 1	127,704	147,499	21,217
Addition	19,795	50,193	7,220
At December 31	147,499	197,692	28,437

6.3 Performance obligations

The transaction price allocated to the remaining unsatisfied performance obligations as of 31 December are, as follows:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Within one year	140,601	117,906	16,960
More than one year	69,172	77,339	11,125
Total unfulfilled service-type maintenance service (Note 24)	209,773	195,245	28,085

7.1 Depreciation, amortization, shipping and handling expenses

(a) Depreciation and amortization expenses

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Amortization of intangible assets (i)	1,012	38,957	64,939	9,341
Depreciation of investment property	376	355	348	50
Depreciation of property, plant and equipment	450,092	492,826	516,276	74,264
Depreciation of right-of-use assets (ii)	43,127	41,458	43,129	6,204
	494,607	573,596	624,692	89,859

Note:

(i) The higher amortization charges in 2021 and 2022 are mainly due to the amortization charged on additional Technology Know-how recognized during the year which are transferred from Group capitalized development cost upon completion and ready for use.

(ii) In 2020, COVID-19 related rent rebate received from lessors of RMB 0.2 million has been offset against the depreciation of right-of-use assets.

(b) Shipping and handling expenses

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Selling, general and administrative expenses	237,683	224,292	150,661	21,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.2 (a) Other operating income

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Interest income	166,970	132,083	131,879	18,970
Dividend income from quoted equity securities	166	168	13	2
Gain on disposal of:				
– associate	–	–	1,329	191
– property, plant and equipment	–	1,224	6,535	940
– quoted equity securities	874	5,416	2,291	330
– right-of-use assets	2,574	14,714	3,929	565
Government grants	209,793	152,932	176,264	25,355
Fair value gain on quoted equity securities	–	138	–	–
Fair value gain on foreign exchange forward contract	999	–	–	–
Foreign exchange gain, net	3,217	–	–	–
Others	15,676	19,496	12,109	1,742
	400,269	326,171	334,349	48,095

7.2 (b) Other operating expenses

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Fair value loss on quoted equity securities	1,196	–	–	–
Impairment loss on investment in joint venture	–	–	990	142
Loss on disposal of property, plant and equipment	4,183	–	–	–
Provision/(reversal) for onerous contract, net	13,639	(8,810)	(4,829)	(695)
Foreign exchange loss, net	–	1,739	555	80
Unrecoverable value added tax	–	11,164	–	–
Others	2,304	5,889	877	127
	21,322	9,982	(2,407)	(346)

7.3 Finance costs

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Bank term loans	95,357	82,109	65,440	9,413
Bills and other discounting	49,738	27,864	23,922	3,441
Bank charges	3,877	4,136	4,563	656
Interest on lease liabilities (Note 17)	2,198	1,819	1,547	223
	151,170	115,928	95,472	13,733

7.4 Staff costs

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Wages and salaries	1,364,751	1,338,777	928,350	133,539
Contribution to defined contribution plans	287,830	386,551	371,458	53,433
Executive bonuses	59,908	19,355	16,500	2,373
Staff welfare	94,982	93,992	79,206	11,393
Staff severance cost	19,712	11,771	19,531	2,809
Others	3,439	4,887	3,875	557
	1,830,622	1,855,333	1,418,920	204,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE

The major components of income tax expense for the years ended December 31, 2020, 2021 and 2022 are as follows:

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Current income tax				
– Current year	180,254	48,856	72,909	10,487
– (Over)/under provision in respect of prior years	(124)	(21,523)	27,406	3,942
Deferred tax				
– Movement in temporary differences	12,543	16,483	(41,147)	(5,918)
– Over provision in respect of prior years	(135)	–	(103)	(15)
Consolidated income tax expense reported in the statement of profit or loss	192,538	43,816	59,065	8,496

The reconciliation between tax expense and the product of accounting profit multiplied by the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2020, 2021 and 2022 for the following reasons:

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Profit before tax	971,864	451,710	394,726	56,779
Income tax expense at 15%	145,780	67,757	59,209	8,517
Adjustments:				
Non-deductible expenses	9,188	17,795	7,924	1,140
Tax-exempt income	(601)	(2,181)	(500)	(72)
Utilization of deferred tax benefits previously not recognized	(1,996)	(29)	(3,093)	(445)
Deferred tax benefits not recognized	6,097	10,356	22,606	3,252
Tax credits for research and development expense	(26,329)	(59,633)	(76,835)	(11,052)
Tax rate differential	24,251	16,517	10,901	1,568
(Over)/under provision in respect of previous years	(259)	(21,523)	27,303	3,927
Withholding tax expense	36,332	14,639	11,535	1,659
Others	75	118	15	2
Total	192,538	43,816	59,065	8,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Accelerated tax depreciation	(138,770)	(122,298)	(17,592)	(55,882)	(37,968)	16,472	2,369
Interest receivable	(3,396)	(3,033)	(436)	(293)	(1,459)	363	52
PRC withholding tax on dividend income [(i)]	(65,544)	(61,825)	(8,893)	(36,255)	(14,529)	(11,458)	(1,648)
Effect of change in residual value an impairment of property, plant and equipment	65,368	69,641	10,018	33,456	25,264	4,273	615
Write-down of inventories	20,250	29,503	4,244	4,225	(2,378)	9,253	1,331
Impairment losses on trade receivables	6,789	7,071	1,017	(2,021)	(1,267)	282	41
Accruals	283,427	234,586	33,744	48,149	(15,339)	(48,841)	(7,026)
Deferred income	97,828	56,480	8,124	1,211	(11,114)	(41,348)	(5,948)
Losses available for offsetting against future taxable income	23,072	139,747	20,102	–	23,072	116,675	16,783
Others	43,606	39,185	5,636	(4,998)	19,235	(4,421)	(636)
Deferred tax (expenses)/ benefits				(12,408)	(16,483)	41,250	5,933
Net deferred tax assets	332,630	389,057	55,964				
Reflected in the consolidated statement of financial position as follows:							
Deferred tax assets	398,174	450,882	64,857				
Deferred tax liabilities	(65,544)	(61,825)	(8,893)				
	332,630	389,057	55,964				

Note:

(i) The movement of PRC withholding tax on dividend income is as follows:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
At January 1	(112,456)	(65,544)	(9,428)
Provision made to consolidated statement of profit or loss	(14,529)	(11,458)	(1,648)
Utilization	61,441	15,177	2,183
December 31	(65,544)	(61,825)	(8,893)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE (cont'd)

Deferred tax (cont'd)

The Corporate Income Tax ("CIT") law 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 profit earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a deferred tax liability for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2022, the deferred tax liability for withholding tax payable was RMB 61.8 million (US$ 8.9 million) (2021: RMB 65.5 million). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 190.7 million (US$ 27.4 million) (2021: RMB 195.5 million).

Deferred tax assets have not been recognized in respect of the following items:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Unutilized tax losses	414,212	473,456	68,105
Unutilized capital allowances and investment allowances	103,810	100,643	14,477
Other unrecognized temporary differences relating to asset impairment and deferred grants	199,203	142,851	20,548
	717,225	716,950	103,130

Unrecognized tax losses for the Group are subject to agreement with the tax authorities and compliance with tax regulations in the respective countries in which the Group operates. The unutilized tax losses for PRC subsidiaries and Malaysia subsidiaries expire within the next 5 to 10 years and 10 years, respectively. These losses may not be used to offset taxable income elsewhere in the Group. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilize the benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company 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.

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Profit attributable to equity holders of the Company	548,903	272,673	218,581	31,442
Weighted average number of ordinary shares	40,858,290	40,858,290	40,858,290	40,858,290

Diluted earnings per share

The weighted average number of ordinary shares adjusted for the effect of unissued ordinary shares under the Share Option Scheme is determined as follows:

	31.12.2020	31.12.2021	31.12.2022
Weighted average number of shares issued, used in the calculation of basic earnings per share	40,858,290	40,858,290	40,858,290
Diluted effect of share options	–	–	–
Weighted average number of ordinary shares adjusted for effect of dilution	40,858,290	40,858,290	40,858,290

In 2022, 270,000 (2021: 270,000; 2020: 470,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary share since the reporting date and before the completion of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Leasehold buildings and 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
Cost							
At January 1, 2021	14,092	2,449,379	700,716	5,731,485	203,090	123,058	9,221,820
Additions	–	2,214	426,621	20,655	16,803	12,598	478,891
Disposals	–	(5,435)	–	(81,321)	(1,896)	(13,860)	(102,512)
Transfers	–	105,117	(721,753)	603,595	13,041	–	–
Write-off	–	(1,551)	–	(48,990)	(7,416)	(2,591)	(60,548)
Translation difference	(628)	(3,439)	(154)	(522)	(1,242)	(36)	(6,021)
At December 31, 2021 and January 1, 2022	13,464	2,546,285	405,430	6,224,902	222,380	119,169	9,531,630
Additions	–	8,768	312,442	13,469	12,413	6,256	353,348
Disposals	–	(5,530)	–	(54,323)	(964)	(6,568)	(67,385)
Transfers	–	72,252	(369,120)	288,475	8,491	–	98
Write-off	–	(14,827)	–	(1,081)	(10,754)	(2,465)	(29,127)
Translation difference	1,190	3,836	17	404	763	145	6,355
At December 31, 2022	14,654	2,610,784	348,769	6,471,846	232,329	116,537	9,794,919
Accumulated depreciation and impairment							
At January 1, 2021	487	934,390	–	3,795,804	159,035	73,344	4,963,060
Charge for the year	–	93,397	–	394,171	19,579	12,371	519,518*
Disposals	–	(2,119)	–	(78,917)	(1,688)	(12,109)	(94,833)
Write-off	–	(1,432)	–	(48,366)	(7,280)	(2,336)	(59,414)
Impairment loss	–	–	–	7,227	–	–	7,227
Translation difference	(30)	(780)	–	(277)	(716)	(34)	(1,837)
At December 31, 2021 and January 1, 2022	457	1,023,456	–	4,069,642	168,930	71,236	5,333,721
Charge for the year	–	101,709	–	398,465	22,005	11,598	533,777*
Disposals	–	(3,166)	–	(51,290)	(960)	(6,255)	(61,671)
Write-off	–	(11,855)	–	(978)	(10,559)	(2,440)	(25,832)
Impairment loss	–	–	14,060	3,218	–	–	17,278
Translation difference	20	984	–	204	571	123	1,902
At December 31, 2022	477	1,111,128	14,060	4,419,261	179,987	74,262	5,799,175
Net book value							
At December 31, 2021	13,007	1,522,829	405,430	2,155,260	53,450	47,933	4,197,909
At December 31, 2022	14,177	1,499,656	334,709	2,052,585	52,342	42,275	3,995,744
US$'000	2,039	215,719	48,147	295,255	7,529	6,081	574,770

* In 2022, RMB 14.9 million (US$ 2.1 million) (2021: RMB 26.1 million) were capitalized as development costs. In 2022, RMB 2.6 million (US$ 0.4 million) (2021: RMB 0.6 million) were capitalized as capitalized contract cost.

An impairment loss of RMB 17.3 million (US$ 2.5 million) (2021: RMB 7.2 million; 2020: RMB 3.9 million) was charged to the consolidated statement of profit or loss under "Cost of sales" for the Group's plant and equipment within the Yuchai segment. The impairment loss was due to assets that were not in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENT PROPERTY

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Cost			
At January 1	33,187	31,810	4,575
Translation difference	(1,377)	579	84
At December 31	31,810	32,389	4,659
Accumulated depreciation			
At January 1	27,358	26,724	3,844
Charge for the year	355	348	50
Translation difference	(989)	561	81
At December 31	26,724	27,633	3,975
Net carrying amount	5,086	4,756	684
Fair value	11,308	11,686	1,681
Consolidated statements of profit or loss:			
Rental income from an investment property	77	176	25
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	(82)	(118)	(17)

The Group has no restrictions on the realizable of its investment property and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The fair value is determined by independent professional qualified assessor. The fair value of investment property is determined by the market comparison and cost methods. In valuing the investment property, due consideration is given to factors such as location and size of building, building infrastructure, market knowledge and historical comparable transactions to arrive at their opinion of value.

The following table shows information about fair value measurement of the investment property using significant unobservable inputs (Level 3):

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2022	Market comparison and cost method	Comparable price: - RMB 182 to RMB 441 (US$ 26 to US$ 63) per square foot	The estimated fair value increases with higher comparable price
2021	Market comparison and cost method	Comparable price: - RMB 165 to RMB 401 per square foot	The estimated fair value increases with higher comparable price

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS

	Goodwill RMB'000	Technology Know-how RMB'000	Development costs RMB'000	Trademarks RMB'000	Total RMB'000
Cost					
At January 1, 2021	218,311	136,822	1,093,423	169,811	1,618,367
Addition	–	–	313,571	–	313,571
Transfer	–	414,704	(414,704)	–	–
At December 31, 2021 and January 1, 2022	218,311	551,526	992,290	169,811	1,931,938
Addition	–	–	181,181	–	181,181
Transfer	–	121,227	(121,227)	–	–
At December 31, 2022	218,311	672,753	1,052,244	169,811	2,113,119
Accumulated amortization and impairment					
At January 1, 2021	5,675	128,724	–	–	134,399
Amortization	–	38,957	–	–	38,957
At December 31, 2021 and January 1, 2022	5,675	167,681	–	–	173,356
Amortization	–	64,939	–	–	64,939
At December 31, 2022	5,675	232,620	–	–	238,295
Net carrying amount					
At December 31, 2021	212,636	383,845	992,290	169,811	1,758,582
At December 31, 2022	212,636	440,133	1,052,244	169,811	1,874,824
US$'000	30,587	63,311	151,361	24,426	269,685

Goodwill

Goodwill represents the excess of purchase consideration 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. Goodwill allocated to Yulin Hotel was fully impaired in 2008.

Carrying amount of goodwill allocated to the cash-generating unit:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Yuchai	212,636	212,636	30,587

Yuchai unit

The Group performs its impairment test annually. The recoverable amount of the unit was 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 has control in 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 was 14.34% (2021: 12.54%) and cash flows beyond the ten-year period are extrapolated using a 5% growth rate (2021: 5%) that is the same as the long-term average growth rate for PRC. No impairment was identified for this unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS (cont'd)

Goodwill (cont'd)

Yuchai unit (cont'd)

Key assumptions used for value in use calculations

Key assumptions used in estimation of value in use were as follows:

- Profit from operation
- Discount rate

Profit from operation – Profit from operation is based on management's estimate with reference to historical performance and future business outlook of Yuchai unit.

Discount rate – Discount rate reflects management's estimate of the risks specific to the cash-generating unit and is estimated based on weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the cash-generating unit is obliged to service. This rate is weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group.

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 26.64% (2021: 15.21%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 17.92% (2021: 14.03%) in the Yuchai unit would result in impairment.

With regard to the assessment of value in use of the Yuchai unit, management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to materially fall below the carrying value of the unit.

Technology know-how

At December 31, 2022, The Group has an intangible asset representing technology development costs with carrying amount of RMB 5.9 million, which is the technology know-how that relates to production of 4Y20 engines. As of December 31, 2022, the accumulated impairment loss that was brought forward from prior years on this technology know-how was RMB 126.7 million.

In late 2018, the Group had commenced the production of 4Y20 engines. In 2020, 2021 and 2022, management believed that there was no indicator for further impairment. Also, having considered that there was no significant change to the market and economic environment which will have a favorable effect to the recoverable amount of the intangible asset, management had concluded that no reversal of impairment was necessary in 2020, 2021 and 2022.

In 2022, the development of certain engine platform relating to National VI engines were completed, and the related development costs amounting to RMB 121.2 million (US$ 17.4 million) (2021: RMB 414.7 million) were transferred from development costs to technology know-how, and amortization were charged accordingly based on the Group's policy.

Development costs

During 2021 and 2022, the Group has capitalized development costs of RMB 313.6 million and RMB 181.2 million (US$ 26.1 million), respectively, mainly for new engines that comply with National VI and Tier 4 emission standards. As of December 31, 2022, the total capitalized development costs are RMB 1,052.2 million (US$ 151.4 million) (2021: RMB 992.3 Million). These development costs relate to on-going development efforts and, accordingly, have not yet been available for use, and therefore no amortization charges were recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS (cont'd)

Development costs (cont'd)

In 2021 and 2022, the Group performs an impairment test on the development costs that are not available for use. No impairment has been identified. The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. In 2022, the Group used 7 years (2021: 8 years) forecast and were based on the updated financial budgets approved by the senior management with no terminal value.

Key assumptions used in estimation of value in use were as follows:

- Profit from operation – Profit from operation is based on management's estimate with reference to historical revenue generated, growth rate and estimation of future business outlook. In 2022, the Group used a 7 years business plan, and estimated the revenue growth rate is the range of 15% to 20% year-on-year from 2023 to 2027 in view of the implementation of new emission standard and management expect an accelerated growth for new energy products due to the government's emphasis on new energy. Management assumes the revenue for the year 2028 and 2029 remain the same level as 2027. In 2021, the Group used a 8 years business plan, the revenue growth rate is estimated at an average around 12% year-on-year from 2022 to 2025 decrease to 5% in 2026 and thereafter management assumed no revenue growth from 2026 to 2029.
- Discount rate – Discount rate reflects management's estimate of the risks specific to the cash-generating unit and is estimated based on weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the cash-generating unit is obliged to service. This rate is weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group. The Group has applied a pre-tax discount rate of 14.34% (2021: 12.54%).

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 4.88% (2021: 13.86%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 19.17% (2021: 15.69%) would result in impairment.

With regard to the assessment of value in use, management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to materially fall below the carrying value.

Trademarks

In 2019, Yuchai entered into a trademark license agreement with GY Group under which Yuchai was granted the exclusive and perpetual use of the trademarks listed in the trademark license agreement for a one-time usage fee of RMB 169.8 million (US$ 24.4 million).

Management has assessed and concluded that the right granted by the trademark license, according to the terms and conditions of the trademark license agreement, is indefinite.

In 2021 and 2022, the Group performed an annual impairment review by taking Yuchai as a cash-generating unit. Using the same cash flow projection and assumptions for goodwill impairment test disclosed above, management concluded that no impairment charge is to be recognized in 2021 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INVENTORIES

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Raw materials	2,111,881	2,339,933	336,589
Work in progress	25,169	24,312	3,497
Finished goods	3,071,586	2,573,510	370,188
Total inventories at the lower of cost and net realizable value	5,208,636	4,937,755	710,274

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Inventories recognized as an expense in cost of sales	15,501,807	16,457,476	11,991,899	1,724,982
Inclusive of the following charge/(credit):				
- Inventories written down	82,386	32,813	86,650	12,464
- Reversal of write-down of inventories	(54,408)	(41,823)	(31,765)	(4,569)
- Inventories written off	–	10,085	–	–

The reversal of write-down of inventory was made when the related inventories were sold above their carrying value.

14. OTHER CURRENT ASSETS

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Current			
Development properties	16,167	16,710	2,404
Quoted equity securities [(i)]	606	–	–
	16,773	16,710	2,404

Note:

(i) The quoted equity securities are listed on the Singapore Exchange.

In 2021, the Group partially disposed the quoted equity securities for consideration of RMB 6.5 million and recognized a gain on disposal of RMB 5.4 million in consolidated statement of profit or loss under "Other operating income".

In 2022, the Group has disposed the remaining quoted equity securities for consideration of RMB 0.6 million (US$ 0.1 million) and recognized a gain on disposal of RMB 2.3 million (US$ 0.3 million) in consolidated statement of profit or loss under "Other operating income".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Trade receivables, gross	364,445	1,549,462	222,883
Less: Allowance for expected credit losses	(33,210)	(33,247)	(4,782)
Net trade receivables (Note 6.2)	331,235	1,516,215	218,101
Bills receivable [(i)]	6,437,100	4,970,880	715,039
Total (Note 35, Note 36)	6,768,335	6,487,095	933,140
Amounts receivable:			
– associates and joint ventures (trade)	243	125,489	18,051
– associates and joint ventures (non-trade)	11,959	11,230	1,615
– related parties (trade)	68,539	180,374	25,946
– related parties (non-trade)	459	3,476	500
Bills receivable in transit	22,360	8,172	1,176
Grant receivables	–	62,000	8,919
Interest receivables	11,788	15,437	2,221
Others	29,663	34,326	4,937
Less: Impairment losses – other receivables	(6,231)	(5,754)	(828)
Other receivables carried at amortized cost (Note 35)	138,780	434,750	62,537
Tax recoverable	328,369	290,596	41,801
Advances paid to suppliers	66,474	81,861	11,775
Right of return assets	40,761	17,045	2,452
Net other receivables	574,384	824,252	118,565
Total trade and other receivables	7,342,719	7,311,347	1,051,705

Note:

(i) As of December 31, 2022, bills receivable includes bills received from joint ventures and related parties amounted to RMB 0.1 million (US$ less than 0.1 million) (2021: RMB 0.7 million) and RMB 763.4 million (US$ 109.8 million) (2021: RMB 523.5 million) respectively.

As of December 31, 2022, bills receivable amounted to RMB 12.6 million (US$ 1.8 million) (2021: RMB 13.4 million) was pledged to secure bank facilities.

Trade receivables are non-interest bearing and are generally on 60 - 90 days' term. They are recognized at their original invoice amounts, net of sales rebates in the financial year.

Non-trade balance from associates, joint ventures and other related parties are unsecured, interest-free, and repayable on demand.

Movement in the allowance for expected credit losses of trade and other receivables is as follows:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
At January 1	50,260	39,441	5,674
Credit to consolidated statement of profit or loss (under "Selling, general and administrative expenses")	(8,525)	(459)	(66)
Written off	(2,278)	(5)	(1)
Translation difference	(16)	24	3
At December 31	39,441	39,001	5,610

As of December 31, 2021 and 2022, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled RMB 79.1 million and RMB 936.9 million (US$ 134.8 million) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (cont'd)

As of December 31, 2021 and 2022, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 2,550.0 million and RMB 1,032.1 million (US$ 148.5 million) respectively.

As of December 31, 2021 and 2022, trade receivables due from a major customer, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 29.2 million and RMB 662.7 million (US$ 95.3 million), respectively. See Note 32 for further discussion of customer concentration risk.

For terms and conditions relating to related parties, refer to Note 29.

16. CASH AND CASH EQUIVALENTS

LONG-TERM BANK DEPOSITS

SHORT-TERM BANK DEPOSITS

RESTRICTED CASH

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Non-current			
Long-term bank deposits (i)	110,000	20,000	2,877
Current			
Cash and cash equivalents	4,788,219	4,451,489	640,327
Short-term bank deposits (ii)	357,335	351,567	50,571
Restricted cash	76,001	27,687	3,983
	5,221,555	4,830,743	694,881
Cash and bank balances	5,331,555	4,850,743	697,758

Note:

(i) In 2021, YMMC has placed new three-year time deposits of RMB 20.0 million at annual interest rate of 3.85% with certain bank. These long-term deposits are not considered to be cash equivalents.

As at December 31, 2022, the three-year time deposits placed in 2020 has remaining maturity period of less than 12 months. Accordingly, this has been classified as short-term bank deposits in 2022.

(ii) Short-term bank deposits relate to bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity. The interest rate of these bank deposits as of December 31, 2022 for the Group ranged from 0.80% to 4.36% (2021: 0.30% to 1.65%). These short-term bank deposits are not considered as cash equivalents.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rate of the bank deposits (excluding long-term and short-term bank deposits) as of December 31, 2022 for the Group ranged from 1.25% to 5.15% (2021: 0.13% to 1.55%).

As at December 31, 2022, there is fixed deposits of RMB 36.6 million (US$ 5.3 million) held with a related party (2021: RMB 140.3 million).

As of December 31, 2022, the Group's restricted cash of RMB 27.7 million (US$ 4.0 million) (2021: RMB 76.0 million) was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2021 and 2022, the Group had RMB 474.2 million and RMB 518.0 million (US$ 74.5 million) respectively, of undrawn borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2020 was less than RMB 0.1 million, and Nil for both 2021 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. CASH AND CASH EQUIVALENTS (cont'd)

LONG-TERM BANK DEPOSITS (cont'd)

SHORT-TERM BANK DEPOSITS (cont'd)

RESTRICTED CASH (cont'd)

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

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Cash at banks and on hand	4,218,131	3,730,372	536,597
Short-term bank deposits [(i)]	570,088	721,117	103,730
Cash and cash equivalents	4,788,219	4,451,489	640,327

Note:

(i) This relates to other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

17. LEASES

Group as a lessee

The Group has lease contracts for land, motor vehicles, office space and staff accommodations used in its operations. These leases are generally with lease term of between 1 and 12 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of office space and staff accommodations with lease terms of 12 months or less. The Group has applied the "short-term leases" recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year.

	Leasehold land RMB'000	Building and office space RMB'000	Office furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000	Total US$'000
At January 1, 2021	338,565	45,430	6	–	384,001	55,237
Addition	1,355	22,558	58	–	23,971	3,448
Depreciation expenses	(13,655)	(27,790)	(13)	–	(41,458)	(5,964)
Disposal	(21,620)	–	–	–	(21,620)	(3,110)
Translation difference	–	(80)	–	–	(80)	(11)
At December 31, 2021 and January 1, 2022	304,645	40,118	51	–	344,814	49,600
Addition	–	49,421	–	314	49,735	7,154
Depreciation expenses	(12,324)	(30,772)	(14)	(19)	(43,129)	(6,204)
Disposal	(3,256)	–	–	–	(3,256)	(468)
Termination	–	(6,187)	–	–	(6,187)	(890)
Translation difference	–	159	5	–	164	24
At December 31, 2022	289,065	52,739	42	295	342,141	49,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. LEASES (cont'd)

Group as a lessee (cont'd)

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2021 RMB'000	2022 RMB'000	2022 US$'000
At January 1	39,778	40,531	5,830
Additions	23,971	49,735	7,154
Accretion of interest (Note 7.3)	1,819	1,547	223
Payments	(24,940)	(26,144)	(3,761)
Termination	–	(6,187)	(890)
Translation difference	(97)	159	23
At December 31	40,531	59,641	8,579
Current (Note 25)	27,125	31,433	4,521
Non-current (Note 25)	13,406	28,208	4,058
Total	40,531	59,641	8,579

The following are the amounts recognized in profit of loss:

	2021 RMB'000	2022 RMB'000	2022 US$'000
Depreciation charge for right-of-use assets	41,458	43,129	6,204
Interest expenses on lease liabilities (Note 7.3)	1,819	1,547	223
Expenses relating to short-term leases (included in selling, general and administrative expenses and research and development expenses)	27,686	25,022	3,599
Total amount recognized in profit or loss	70,963	69,698	10,026

In 2022, the Group had total cash outflows for leases of RMB 51.2 million (US$ 7.4 million) (2021: RMB 52.6 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of RMB 49.7 million (US$ 7.2 million) in 2022 (2021: RMB 24.0 million). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 30.

Group as a lessor

The Group has entered into operating leases on some of its assets, including surplus offices and warehouses. Theses leases have terms between 1 to 20 years. Rental income recognized by the Group during the year is RMB 18.1 million (US$ 2.6 million) (2021: RMB 15.2 million).

Future minimum rental receivables under non-cancellable operating leases as of 31 December are as follows:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Within 1 year			
– related parties	598	17	2
– joint venture	1,425	1,587	228
– third parties	5,573	8,136	1,170
After 1 year but within 5 years			
– related parties	2,358	17	2
– joint venture	5,698	6,292	905
– third parties	7,240	19,364	2,785
More than 5 years			
– joint venture	10,566	9,690	1,394
– third parties	4,272	26,566	3,821
	37,730	71,669	10,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. ISSUED CAPITAL

	31.12.2021 thousands	31.12.2022 thousands
Issued capital		
Authorized shares		
Ordinary share of par value US$ 0.10 each	100,000	100,000

	Number of shares	RMB'000
Ordinary shares issued and fully paid		
At January 1, 2021, December 31, 2021 and December 31, 2022	40,858,290	2,081,138
US$'000		299,362

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$ 0.10 per share	*	*	*

* Less than RMB 1 (US$ 1)

The holders of ordinary shares are entitled to such dividends as the Board of Directors of the Company may declare from time to time. All ordinary shares are entitled to one vote on a show of hands and carry one vote per share on a poll.

The holder of special share is entitled to elect a majority of directors of the Company. In addition, no shareholders' resolution may be passed without the affirmative vote of the special share, including any resolution to amend the Memorandum of Association or Bye-laws of the Company. The special share is not transferable except to Hong Leong Asia Ltd. ("HLA"), Hong Leong (China) Limited ("HLC") or any of its affiliates. The Bye-Laws of the Company provides that the special share shall cease to carry any rights in the event that HLA and its affiliates cease to own, directly or indirectly, at least 7,290,000 ordinary shares in the capital of the Company.

19. DIVIDENDS DECLARED AND PAID

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2022: US$ 0.40 per share (2021: US$ 1.70 per share)	448,712	109,684	15,778
Dividend paid in cash	448,712	109,684	15,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. RESERVES

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Statutory reserve			
Statutory general reserve (i)			
At January 1	281,459	283,531	40,785
Transfer from retained earnings	2,072	26,498	3,811
At December 31	283,531	310,029	44,596
General surplus reserve (ii)			
At January 1 and December 31	25,706	25,706	3,698
Total	309,237	335,735	48,294
Capital reserves (iii)			
At January 1	30,704	30,704	4,416
Issuance of put option to non-controlling interest of subsidiary	–	(34,900)	(5,020)
At December 31	30,704	(4,196)	(604)

Note:

(i) 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 shareholders 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.

(ii) General surplus reserve is appropriated in accordance with Yuchai's Articles and resolution of the board of directors. General surplus reserve may be used to offset accumulated losses or increase the registered capital.

(iii) Capital reserves consist of reserve resulted from (i) a capital transaction in 2015 and (ii) the put option granted to the non-controlling interests of Yuchai's subsidiary company in 2022. Further details are given in Note 28.

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Other components of equity			
Foreign currency translation reserve (i)	(118,176)	(44,699)	(6,430)
Performance shares reserve (ii)	19,758	19,758	2,842
Premium paid for acquisition of non-controlling interests	(11,472)	(9,463)	(1,361)
Fair value reserve of financial assets at FVOCI (iii)	(30,902)	(30,591)	(4,400)
Total	(140,792)	(64,995)	(9,349)

Note:

(i) Foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(ii) Performance shares reserve comprises the cumulative value of employee services received in return for share-based compensation. The amount in the reserve is retained when the option is expired.

(iii) Fair value reserve of financial assets at FVOCI relates to the subsequent measurement of the Group's bills receivable at fair value through OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE-BASED PAYMENT

The Company's Equity Incentive Plan ("Equity Plan") was approved by the shareholders at the Annual General Meeting of the Company held on July 4, 2014 for duration of 10 years (from July 29, 2014 to July 28, 2024).

All options granted under the Equity Plan are subject to a vesting schedule as follows:

(1) one year after the date of grant for up to 33% of the shares over which the options are exercisable;

(2) two years after the date of grant for up to 66% (including (1) above) of the shares over which the options are exercisable; and

(3) three years after the date of grant for up to 100% (including (1) and (2) above) of the shares over which the options are exercisable.

In 2022, there was no expense arising from equity-settled share-based payment transactions. (2020: Nil; 2021: Nil).

Movements during the year

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in share options during the year:

	Number of share options 31.12.2021	WAEP 31.12.2021	Number of share options 31.12.2022	WAEP 31.12.2022
Outstanding at January 1	470,000	US$ 21.11	270,000	US$ 21.11
Cancelled during the year	(200,000)	US$ 21.11	–	US$ 21.11
Outstanding at December 31	270,000	US$ 21.11	270,000	US$ 21.11
Exercisable at December 31	270,000	US$ 21.11	270,000	US$ 21.11

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Fair value of share options and assumptions

Date of grant of options	On July 29, 2014
Fair value at measurement date (US$)	5.70 – 6.74
Share price (US$)	21.11
Exercise price (US$)	21.11
Expected volatility (%)	47.4
Expected option life (years)	3.5 – 5.5
Expected dividends (%)	5.81
Risk-free interest rate (%)	1.4 – 2.0

The exercise price for options outstanding as of December 31, 2022 was US$21.11 dollar (2021: US$21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as of December 31, 2022 was 1.6 (2021: 2.6) years.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE-BASED PAYMENT (cont'd)

There are no market conditions associated with the share options granted. Service conditions and non-market performance conditions are not taken into account in the measurement of the fair value of the service to be received at the grant date.

22. TRADE AND OTHER PAYABLES

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Current			
Trade payables	3,884,812	4,199,072	604,018
Bills payables (i)	3,085,206	2,356,574	338,983
Other payables	423,787	319,723	45,991
Accrued expenses	167,575	159,735	22,977
Accrued staff costs	689,327	422,045	60,709
Refund liabilities	718,379	222,342	31,983
Dividend payable	29,304	30,205	4,345
Amount due to:			
– associates and joint ventures (trade)	176,819	67,556	9,718
– associates and joint ventures (non-trade)	27	22	3
– related parties (trade)	214,980	296,219	42,610
– related parties (non-trade)	1,308	7,289	1,048
Financial liabilities carried at amortized cost (Note 32, Note 35)	9,391,524	8,080,782	1,162,385
Deferred grants (Note 27)	12,482	13,404	1,928
Advance from customers	316	254	37
Other tax payable	39,416	44,968	6,468
Total trade and other payables (current)	9,443,738	8,139,408	1,170,818

(i) As of December 31, 2022, the bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 36.3 million (US$ 5.2 million) (2021: RMB 28.4 million), RMB Nil (US$ Nil) (2021: RMB 5.4 million) and RMB 192.6 million (US$ 27.7 million) (2021: RMB 237.6 million) respectively.

(ii) Terms and conditions of the above financial liabilities:

- Trade and other payables are non-interest bearing and are normally settled on agreed credit terms ranging from 60 to 90 day terms.
- For terms and conditions relating to related parties, refer to Note 29.

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Non-current			
Other payables (i) (Note 32, Note 35)	188,725	189.366	27,239

(i) This relates to accrual for bonus, which is non-interest bearing and not expected to be settled within next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. PROVISION

	Provision for warranty RMB'000	Provision for onerous contract RMB'000	Total RMB'000	Total US$'000
At January 1, 2021	255,439	13,639	269,078	38,706
Provision made	292,157	4,829	296,986	42,720
Provision utilized	(299,397)	–	(299,397)	(43,067)
Provision reversed	–	(13,639)	(13,639)	(1,962)
At December 31, 2021 and January 1, 2022	248,199	4,829	253,028	36,397
Provision made	317,076	–	317,076	45,610
Provision utilized	(345,161)	–	(345,161)	(49,650)
Provision reversed	–	(4,829)	(4,829)	(695)
At December 31, 2022	220,114	–	220,114	31,662

24. CONTRACT LIABILITIES

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Unfulfilled service-type maintenance services	209,773	195,245	28,085
Advance from customer	432,659	499,831	71,899
Total	642,432	695,076	99,984
Current	573,259	617,737	88,859
Non-current	69,173	77,339	11,125
Total contract liabilities (Note 6.2)	642,432	695,076	99,984

25. LEASE LIABILITIES

	Effective interest rate %	Maturity	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Current (Note 17)	1.25% - 6.40%	2023	27,125	31,433	4,521
Non-current (Note 17)	1.25% - 6.40%	2024-2026	13,406	28,208	4,058

26. LOANS AND BORROWINGS

	Effective interest rate %	Maturity	31.12.2021 RMB'000
Current			
Renminbi denominated loans	1.10 – 3.85	2022	2,103,000
Non-current			
Renminbi denominated loans	3.45	2023	100,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. LOANS AND BORROWINGS (cont'd)

	Effective interest rate %	Maturity	31.12.2022 RMB'000	31.12.2022 US$'000
Current				
Renminbi denominated loans	0.86 – 3.70	2023	2,141,432	308,036
Non-current				
Renminbi denominated loans	3.00	2025	200,000	28,769

Note:

(i) All loan balances as stated above do not have a callable feature.

S$30.0 million credit facility with DBS Bank Ltd ("DBS")

On June 25, 2021, the Company entered into an uncommitted revolving credit facility agreement with DBS with an aggregate value of S$ 30.0 million to refinance the S$30.0 million facility that matured on June 1, 2021. Among other things, the terms of the facility required that (i) HLA retains ownership of the special share, at all-time retains at least 35% ownership of the Company and that the Company remain a consolidated subsidiary of HLA, (ii) the Company at all-time retains at least 76.4% ownership in Yuchai and (iii) HLGE remains listed on the Main Board of Singapore Exchange. The terms of the facility also included certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not being less than US$ 400 million, and the ratio of the consolidated total debt (as defined in the agreement) to consolidated tangible net worth not exceeding 1.0 times. This arrangement was used to finance the Group general working capital requirements.

S$30.0 million credit facility with MUFG Bank Ltd, Singapore Branch ("MUFG")

On June 10, 2020, the Company entered into an uncommitted and unsecured multi-currency revolving credit facility agreement with MUFG for an aggregate value of S$ 30.0 million to refinance the S$ 30.0 million facility that matured on March 17, 2020. The facility is available for three years from the date of the facility agreement and will be used to finance the Company's general working capital requirements. Among other things, the terms of the facility require that HLA retains ownership of the Company's special share and that the Company remains a 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) not being less than US$ 120 million at all times and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth not exceeding 2.0 times at all times, as well as negative pledge provisions and customary drawdown requirements.

US$30.0 million credit facility with Sumitomo Mitsui Banking Corporation, Singapore Branch ("SMBC")

On June 24, 2020, the Company entered into an uncommitted and unsecured multi-currency short-term revolving credit facility agreement with SMBC for an aggregate value of US$ 30.0 million to refinance the US$ 30.0 million facility that matured on March 18, 2020. This facility will be utilized by the Company to finance its 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 subsidiary 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 of June 30 and December 31 of each year not less than US$ 200 million and the ratio of the Company's consolidated total net debt (as defined in the agreement) to consolidated tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. On April 12, 2022, the Company enter into a supplement agreement with SMBC to amend the maximum tenor of each drawdown under the facility to 6 months for US$ and 3 months for SGD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. DEFERRED GRANTS

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
At January 1	541,610	424,140	61,011
Received during the year	50,582	186,993	26,898
Grant disbursed to partner of joint project	(16,270)	(13,243)	(1,905)
Released to consolidated statement of profit or loss	(151,782)	(108,102)	(15,550)
At December 31	424,140	489,788	70,454
Current (Note 22)	12,482	13,404	1,928
Non-current	411,658	476,384	68,526
	424,140	489,788	70,454

The government grant that have been received in PRC was to support and fund Yuchai's production facilities, research and development activities for product innovations and developments.

28. OTHER FINANCIAL LIABILITY

In November 2022, Yuchai Xin-Lan received RMB 50.0 million (US$ 7.2 million) from an investor for its 9.1% of shareholding in Yuchai Xin-Lan. At the same time, Yuchai has granted a put option to this investor (non-controlling interest of its subsidiary company, Yuchai Xin-Lan). This option may be exercised at cost plus agreed interests (based on a fixed interest rate) if certain conditions are not met by end of 2027. Accordingly, the Group recognized a financial liability based on the present value of the amount payable upon exercise of the put. A corresponding capital reserve was recognized (Note 20).

29. RELATED PARTY DISCLOSURES

The ultimate parent

As of December 31, 2022, the controlling shareholder of the Company, HLA, indirectly owned 18,270,965, or 44.7% (2021: 18,270,965, or 44.7%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.3% (2021: 23.3%) of the ordinary shares in the capital of the Company 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 21.4% (2021: 21.4%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

In 2022, there were transactions other than dividends paid, between the Group and HLA of RMB 0.4 million (less than US$0.1 million) (2021: RMB 0.5 million; 2020: RMB 0.03 million). The transaction relates to consultancy fees charged by HLA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY DISCLOSURES (cont'd)

Entity with significant influence over the Group

As of December 31, 2022, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2021: 17.2%) of the ordinary shares in the capital of the Company.

The following provides the significant transactions that have been entered into with related parties for the relevant financial year.

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Sales of engines and parts				
– associates and joint ventures	1,256,268	393,440	411,010	59,122
– GY Group (including its subsidiaries and affiliates)	2,637,845	3,223,785	2,262,306	325,423
Purchase of parts, supplies and engines				
– associates and joint ventures	2,792,707	2,036,675	1,396,611	200,896
– GY Group (including its subsidiaries and affiliates)	1,245,030	1,307,137	1,053,607	151,557
Hospitality, restaurant, consultancy and other service income charged to				
– a joint venture	3,918	2,152	5,803	835
– GY Group (including its subsidiaries and affiliates)	6,765	6,609	10,398	1,496
Service charge charged by				
– joint ventures	–	5,023	128	18
Rental income				
– joint ventures	4,565	4,415	4,634	667
– GY Group (including its subsidiaries and affiliates)	3,970	275	580	83
Property management service expenses				
– GY Group (including its subsidiaries and affiliates)	24,968	21,978	22,128	3,183
Selling, general and administrative expenses				
– a joint venture	7,287	2,530	–	–
– GY Group (including its subsidiaries and affiliates)	4,728	9,315	30,151	4,337
– HLA (including its affiliates)	6,687	7,188	8,994	1,294
Delivery, storage, distribution and handling expenses				
– GY Group (including its subsidiaries and affiliates)	312,891	300,699	201,669	29,009
Payment for lease liabilities				
– GY Group (including its subsidiaries and affiliates) [(i)]	18,086	17,215	19,802	2,848
Purchases of vehicles and machineries				
– GY Group (including its subsidiaries and affiliates)	2,838	3,460	2,513	361

Note:

(i) The Group has adopted IFRS 16 on January 1, 2019. These leasing expenses have been recognized as right-of-use assets and lease liabilities on the consolidated statement of financial position as of December 31, 2021 and 2022.

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.

The transactions with related parties are made at terms agreed between the parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY DISCLOSURES (cont'd)

Compensation of key management personnel of the Group

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Short-term employee benefits	43,178	25,289	25,011	3,598
Contribution to defined contribution plans	292	273	208	30
	43,470	25,562	25,219	3,628

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

30. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

The Group does not has lease contracts that have not yet commenced as of December 31, 2022. The future lease payments for these non-cancellable lease contracts are as follows:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Within 1 year	2,769	–	–
After 1 year but within 5 years	2,178	–	–
After 5 years	–	–	–
	4,947	–	–

Capital commitments

As of December 31, 2021 and 2022, the Group had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid and not recognized in financial statements amounting to RMB 425.2 million and RMB 319.5 million (US$ 46.0 million) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 5.

31. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services, and has two reportable operating segments as follows:

- Yuchai primarily conducts manufacturing and sale of diesel engines which are mainly distributed in the PRC market.
- HLGE is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia. HLGE is listed on the Main Board of the Singapore Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (cont'd)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Year ended December 31, 2020	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 6.1)	20,557,660	23,510	–	–	20,581,170
Results					
Interest income	158,569	3,538	4,863	–	166,970
Interest expense	(147,161)	(35)	(97)	–	(147,293)
Impairment of property, plant and equipment	(3,920)	–	–	–	(3,920)
Staff severance cost	(19,712)	–	–	–	(19,712)
Depreciation and amortization	(488,536)	(5,181)	(890)	–	(494,607)
Share of profit of associates and joint venture	(59,476)	506	–	–	(58,970)
Income tax expense	(156,007)	(200)	(69)	(36,262)[(1)]	(192,538)
Segment profit after tax	829,042	1,052	(17,127)	(33,641)[(1)]	779,326
Total assets	25,330,625	392,096	2,075,262	(1,507,025)	26,290,958
Total liabilities	(14,328,688)	(10,346)	(15,797)	(103,417)[(2)]	(14,458,248)
Other disclosures					
Investment in joint ventures	223,918	3,202	–	–	227,120
Capital expenditure	550,424	4,409	14	–	554,847

Year ended December 31, 2021	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 6.1)	21,254,134	11,796	–	–	21,265,930
Results					
Interest income	129,520	1,363	1,200	–	132,083
Interest expense	(111,747)	(19)	(26)	–	(111,792)
Impairment of property, plant and equipment	(7,227)	–	–	–	(7,227)
Staff severance cost	(11,771)	–	–	–	(11,771)
Depreciation and amortization	(567,465)	(5,221)	(910)	–	(573,596)
Share of profit of associates and joint venture	(96,658)	763	–	–	(95,895)
Income tax expense	(29,043)	(245)	–	(14,528)[(1)]	(43,816)
Segment profit after tax	443,499	(6,728)	(20,321)	(8,556)[(1)]	407,894
Total assets	23,897,506	368,415	2,146,060	(1,506,672)	24,905,309
Total liabilities	(13,206,953)	(10,322)	(13,550)	(59,140)[(2)]	(13,289,965)
Other disclosures					
Investment in joint ventures	147,106	3,989	–	–	151,095
Capital expenditure	474,562	4,310	19	–	478,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (cont'd)

Year ended December 31, 2022	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000	Consolidated financial statements US$'000
Revenue						
Total external revenue (Note 6.1)	15,997,766	32,870	–	–	16,030,636	2,305,936
Results						
Interest income	116,668	2,902	12,309	–	131,879	18,970
Interest expense	(90,846)	(49)	(14)	–	(90,909)	(13,077)
Impairment of investment in joint venture	(990)	–	–	–	(990)	(142)
Impairment of property, plant and equipment	(17,278)	–	–	–	(17,278)	(2,485)
Staff severance cost	(19,531)	–	–	–	(19,531)	(2,809)
Depreciation and amortization	(619,000)	(4,770)	(922)	–	(624,692)	(89,859)
Share of (loss)/profit of associates and joint venture	(29,554)	461	–	–	(29,093)	(4,185)
Income tax expense	(47,555)	(39)	(9)	(11,462)[(1)]	(59,065)	(8,496)
Segment profit after tax	354,865	5,152	(18,245)	(6,111)[(1)]	335,661	48,283
Total assets	23,020,241	405,871	2,215,652	(1,504,208)	24,137,556	3,472,080
Total liabilities	(12,220,938)	(12,062)	(14,256)	(55,236)[(2)]	(12,302,492)	(1,769,659)
Other disclosures						
Investment in joint ventures	150,219	4,484	–	–	154,703	22,253
Capital expenditure	352,737	564	47	–	353,348	50,828

Note:

(1) This relates mainly to the deferred tax expense relating to withholding tax on dividends from Yuchai.

(2) This relates mainly to the deferred tax liabilities relating to cumulative withholding tax on dividends that are expected to be declared from income earned after December 31, 2007 by Yuchai.

Geographic information

The geographic information for revenue from external customers is disclosed in Note 6.1.

Revenue from top 5 customers amounted to RMB 5,916.9 million (US$ 851.1 million) (2021: RMB 10,442.3 million; 2020: RMB 11,896.4 million), arising from sales by Yuchai segment.

Non-current assets

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
People's Republic of China	6,370,404	6,281,907	903,624
Other countries	89,549	90,520	13,021
	6,459,953	6,372,427	916,645

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, investment in joint ventures and associates, investment property, intangible assets and goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables and other financial liability arising from a put option to a non-controlling interest. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and bank deposits that derive directly from its operations. The Group also holds quoted equity securities.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, quoted equity securities and derivative financial instrument.

The sensitivity analyses in the following sections relate to the position as of December 31, 2021 and 2022.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at December 31, 2022.

The analyses exclude the impact of movements in market variables on provisions and on the non-financial assets and liabilities of foreign operations.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank deposits and loans and borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Group are disclosed in Note 26. As certain interest 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 points increase or decrease is used and represents management's assessment of the possible change in interest rates.

If interest rate had been 50 (2021: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2022 of the Group would increase/decrease by RMB 12.2 million (US$ 1.8 million) (2021: increase/decrease by RMB 15.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's sales, purchases and financial liabilities that are denominated in currencies other than the respective functional currencies of entities within the Group. The Group also holds cash and bank balances and other investments denominated in foreign currencies. The currencies giving rise to this risk are primarily the Singapore Dollar, US Dollar and Euro.

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 minimizing the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

The Group's exposures to foreign currency are as follows:

	31.12.2021			
	Singapore Dollar RMB'000	**Euro RMB'000**	**US Dollar RMB'000**	**Others RMB'000**
Quoted equity securities	606	–	–	–
Trade and other receivables	676	8,806	297	–
Cash and bank balances	164,544	2,535	4,345	14,342
Financial liabilities	(1,428)	–	–	–
Trade and other payables	(4,551)	(8,997)	(3,651)	(510)
Net assets/(liabilities)	159,847	2,344	991	13,832

	31.12.2022			
	Singapore Dollar RMB'000	**Euro RMB'000**	**US Dollar RMB'000**	**Others RMB'000**
Trade and other receivables	1,504	7,328	4,484	218
Cash and bank balances	166,517	1,282	26,521	15,340
Financial liabilities	(202)	–	–	–
Trade and other payables	(5,064)	(11,586)	(7,258)	(2,579)
Net assets/(liabilities)	162,755	(2,976)	23,747	12,979
US$'000	23,412	(428)	3,416	1,867

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 before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit before tax		
	31.12.2021 RMB'000	**31.12.2022 RMB'000**	**31.12.2022 US$'000**
Singapore Dollar	15,985	16,276	2,341
Euro	234	(298)	(43)
US Dollar	99	2,375	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Equity price risk

The Group has investment in Thakral Corporation Ltd "TCL" which is quoted equity securities.

Equity price risk sensitivity

A 10% increase/(decrease) in the underlying prices at the reporting date would increase/(decrease) Group's profit before tax by the following amount:

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Statement of profit or loss	61	–	–

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 trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade 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.

An impairment analysis is performed at each reporting date using a provision matrix. The provision rates are determined based on days past due for groupings of various customer segments with similar loss patterns (i.e. by profiles of the customers). The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off at management's discretion after assessment and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 15. The Group's share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 5.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

		Trade receivables				
			Days past due			
As of December 31, 2021	**Total RMB'000**	**Current RMB'000**	**0-90 days RMB'000**	**91-180 days RMB'000**	**181-365 days RMB'000**	**>365 days RMB'000**
Expected credit loss rate	9.1%	–	0.5%	7.2%	15.3%	55.2%
Estimated total gross carrying amount at default	364,445	117,832	131,411	33,897	37,169	44,136
Expected credit loss	33,210	–	714	2,428	5,686	24,382

		Trade receivables				
			Days past due			
As of December 31, 2022	**Total RMB'000**	**Current RMB'000**	**0-90 days RMB'000**	**91-180 days RMB'000**	**181-365 days RMB'000**	**>365 days RMB'000**
Expected credit loss rate	2.1%	–	0.2%	0.2%	0.6%	63.1%
Estimated total gross carrying amount at default	1,549,462	1,138,365	216,355	80,132	63,477	51,133
Expected credit loss	33,247	–	500	124	372	32,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Credit risk (cont'd)

Trade receivables (cont'd)

At December 31, 2022, the Group had top 5 customers (2021: top 5 customers) that owed the Group more than RMB 993.1 million (US$ 142.8 million) (2021: RMB 203.5 million) and accounted for approximately 53.5% (2021: 47.0%) of trade receivables (excluding bills receivables) respectively. These customers are located in the PRC. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 15. The Group's share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 5.

Cash and fixed deposits are placed with banks and financial institutions which are regulated.

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 summarizes the maturity profile of the Group's financial assets and liabilities based on contractual undiscounted payments.

As of December 31, 2021	1 year or less RMB'000	2 to 5 years RMB'000	Total RMB'000
Financial assets			
Trade and bills receivables	6,768,335	–	6,768,335
Other receivables, excluding tax recoverable	138,780	–	138,780
Cash and bank balances	5,221,555	110,000	5,331,555
Quoted equity securities	606	–	606
	12,129,276	110,000	12,239,276
Financial liabilities			
Loans and borrowings	2,130,356	101,524	2,231,880
Trade and other payables (Note 22)	9,391,524	188,725	9,580,249
Lease liabilities	28,121	13,650	41,771
	11,550,001	303,899	11,853,900

As of December 31, 2022	1 year or less RMB'000	2 to 5 years RMB'000	After 5 years RMB'000	Total RMB'000	Total US$'000
Financial assets					
Trade and bills receivables	6,487,095	–	–	6,487,095	933,140
Other receivables, excluding tax recoverable	434,750	–	–	434,750	62,537
Cash and bank balances	4,830,743	20,000	–	4,850,743	697,758
	11,752,588	20,000	–	11,772,588	1,693,435
Financial liabilities					
Loans and borrowings	2,158,839	209,400	–	2,368,239	340,661
Trade and other payables (Note 22)	8,080,782	189,366	–	8,270,148	1,189,624
Lease liabilities	33,102	26,928	216	60,246	8,666
Other financial liability	–	–	58,212	58,212	8,374
	10,272,723	425,694	58,428	10,756,845	1,547,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization 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, lease liabilities and trade and other payables, less cash and bank balances) and equity attributable to equity holders of the Company (comprising issued capital and reserves).

	31.12.2021 RMB'000	31.12.2022 RMB'000	31.12.2022 US$'000
Loans and borrowings (current and non-current) (Note 26)	2,203,000	2,341,432	336,805
Lease liabilities (current and non-current) (Note 25)	40,531	59,641	8,579
Trade and other payables (current and non-current) (Note 22)	9,632,463	8,328,774	1,198,057
Other financial liability (Note 28)	–	45,950	6,610
Less: Cash and bank balances (Note 16)	(5,331,555)	(4,850,743)	(697,758)
Net debts	6,544,439	5,925,054	852,293
Equity attributable to equity holders of the Company	8,859,152	9,008,946	1,295,896
Total capital and net debts	15,403,591	14,934,000	2,148,189

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 ended December 31, 2021 and 2022.

As disclosed in Note 20, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2021 and 2022.

34. FAIR VALUE MEASUREMENT

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as of December 31, 2021:

		Fair value measurement using		
	Date of valuation	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value				
Quoted equity securities:				
Quoted equity shares – TCL (Note 14)	December 31, 2021	606	606	–
Debt instruments [(i)]:				
Bills receivable	December 31, 2021	3,338,816	–	3,338,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. FAIR VALUE MEASUREMENT (cont'd)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as of December 31, 2022:

		Fair value measurement using			
	Date of valuation	Total US$'000	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value					
Debt financial assets [(i)]:					
Bills receivable	December 31, 2022	464,232	3,227,295	–	3,227,295

Note:

(i) The fair values of the Group's debt financial assets at fair value through OCI were measured using the discounted cash flows model. The model incorporates market observable input including the interest rate of similar instruments.

There have been no transfers between Level 1 and Level 2 during 2022 and 2021.

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As of December 31, 2021						
Financial assets						
Quoted equity securities	14	606	–	–	–	606
Trade and bills receivable	15	–	3,429,519	3,338,816	–	6,768,335
Other receivables	15	–	138,780	–	–	138,780
Cash and bank balances	16	–	5,331,555	–	–	5,331,555
		606	8,899,854	3,338,816	–	12,239,276
Financial liabilities						
Trade and other payables	22	–	–	–	9,580,249	9,580,249
Lease liabilities	25	–	–	–	40,531	40,531
Loans and borrowings	26	–	–	–	2,203,000	2,203,000
		–	–	–	11,823,780	11,823,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

	Note	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000	Total US$'000
As of December 31, 2022						
Financial assets						
Trade and bills receivable	15	3,259,800	3,227,295	–	6,487,095	933,140
Other receivables	15	434,750	–	–	434,750	62,537
Cash and bank balances	16	4,850,743	–	–	4,850,743	697,758
		8,545,293	3,227,295	–	11,772,588	1,693,435
Financial liabilities						
Trade and other payables	22	–	–	8,270,148	8,270,148	1,189,624
Lease liabilities	25	–	–	59,641	59,641	8,579
Loans and borrowings	26	–	–	2,341,432	2,341,432	336,805
Other financial liability	28	–	–	45,950	45,950	6,610
		–	–	10,717,171	10,717,171	1,541,618

Quoted equity securities relates to the Group's investment in TCL, which is a company listed on the Main Board of the Singapore Exchange and is involved in investment in real estate and marketing and distributing brands in beauty, wellness and lifestyle categories. Fair values of the quoted equity shares are determined by reference to published price quotations in an active market.

Financial assets/liabilities through profit or loss reflect the positive/negative change in fair value of the foreign exchange forward contract that is not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

Changes in liabilities arising from financing activities

	January 1, 2021 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2021 RMB'000
As of December 31, 2021							
Loans and borrowings							
– current	1,730,000	(127,000)	–	–	–	500,000	2,103,000
– non-current	500,000	100,000	–	–	–	(500,000)	100,000
Lease liabilities							
– current	22,755	(24,940)	1,270	1,819	(54)	26,275	27,125
– non-current	17,023	–	22,701	–	(43)	(26,275)	13,406
Total liabilities from financing activities	2,269,778	(51,940)	23,971	1,819	(97)	–	2,243,531

	January 1, 2022 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Termination RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2022 RMB'000	December 31, 2022 US$'000
As of December 31, 2022									
Loans and borrowings									
– current	2,103,000	(61,568)	–	–	–	–	100,000	2,141,432	308,036
– non-current	100,000	200,000	–	–	–	–	(100,000)	200,000	28,769
Lease liabilities									
– current	27,125	(26,144)	–	1,547	(6,187)	239	34,853	31,433	4,521
– non-current	13,406	–	49,735	–	–	(80)	(34,853)	28,208	4,058
Other financial liability	–	–	45,675	275	–	–	–	45,950	6,610
Total liabilities from financing activities	2,243,531	112,288	95,410	1,822	(6,187)	159	–	2,447,023	351,994

The 'Others' column includes the effect of reclassification of non-current portion of loans and borrowings, including obligations under finance leases and lease liabilities due to the passage of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. COMPARATIVE FIGURES

The Group enters into contractual arrangements with certain customers that entitle them to sales rebates based on sales volume achieved in the financial year. Management has determined that it is more appropriate to net such sales rebates with the receivables due from these customers in the same financial year. Where receivables have been settled, such sales rebates will then be classified as refund liabilities. Accordingly, the comparative figures in the balance sheet as of December 31, 2021 for trade and other receivables and trade and other payables had been adjusted by RMB 195.4 million to conform with current year's presentation. The changes to 2021 comparatives have no impact on the income statement, net current assets and net assets of the Group.

37. SUBSEQUENT EVENTS

In February 2023, Yuchai Xin-Lan received RMB 20.0 million (US$ 2.9 million) in total from two new investors, namely Guangxi Guangtou Incubation Investment Fund and GIIT Investment Development Company. As of February 28, 2023, Yuchai Xin-Lan has received a total capital contribution amount of RMB 70.0 million (US$ 10.1 million) from three external investors, including RMB 50.0 million (US$ 7.2 million) received before year end as disclosed in Note 28. With that, the Group's equity interest in Yuchai Xin-Lan decreased from 69.5% as of December 31, 2022 to 67.0%.

In March 2023, Yuchai transferred its wholly owned subsidiary, Yuchai Xin-Lan (Jiangsu) Hydrogen Energy Technology Co., Ltd ("Yuchai Xin-Lan (Jiangsu)") (formerly known as Jiangsu UniTrump Power Technology Co., Ltd.) to Yuchai Xin-Lan. As a result, the Group's equity interest in Yuchai Xin-Lan (Jiangsu) reduced from 76.4% as of December 31, 2022 to 67.0%.

In March 2023, Yuchai has incorporated a wholly-owned subsidiary, Guangxi Xing Yun Cloud Technology Co. Ltd. ("Xing Yun Cloud"), with a registered capital of RMB 10.0 million (US$ 1.4 million). The newly formed subsidiary will develop proprietary operating systems to enable data analytics for smart and connected solutions for both on- and off-road vehicles as well as machineries. In addition, Xing Yun Cloud will manage IT operations and maintenance, develop and support new digital projects, and develop intelligent networks and processes for the Yuchai Group.

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