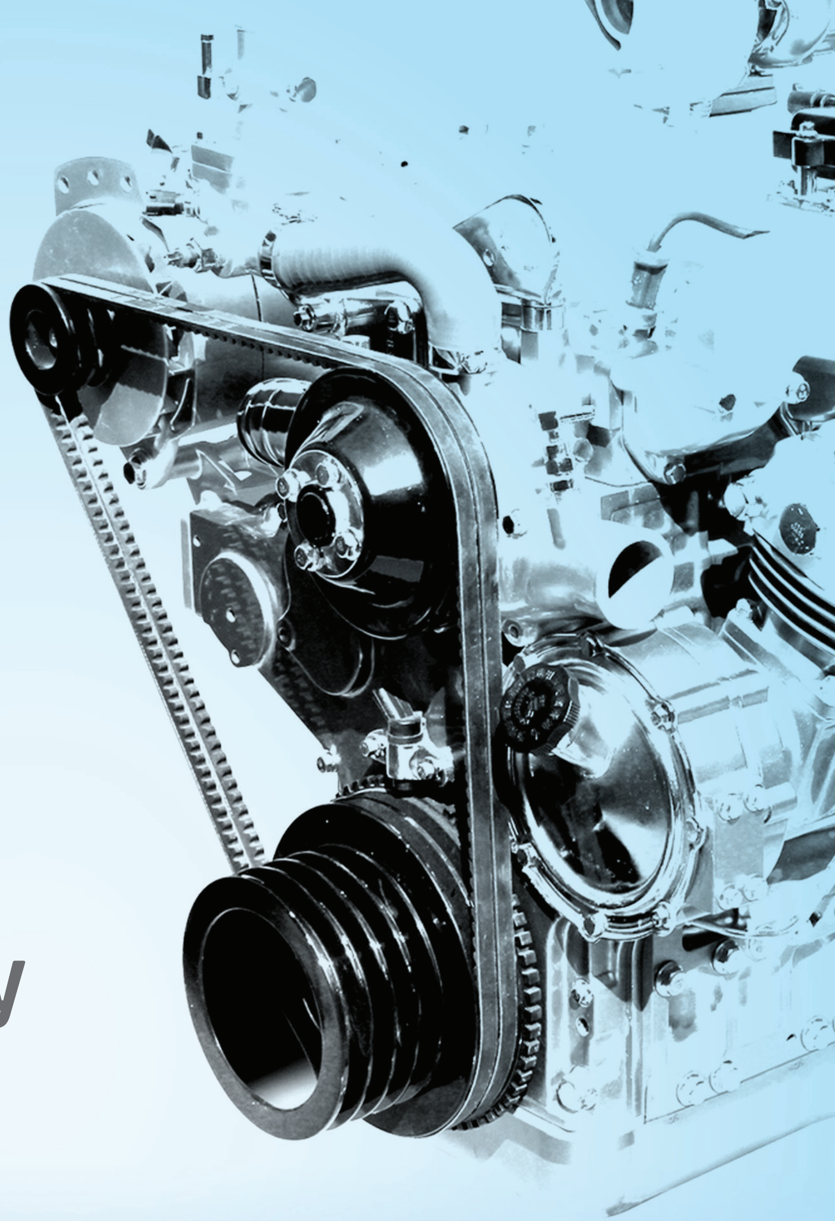
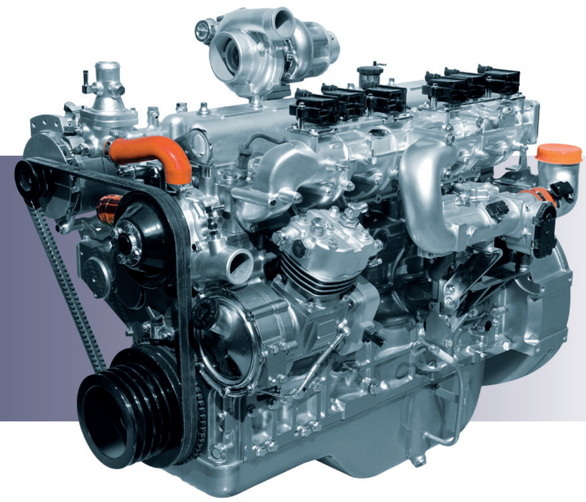
China Yuchai International Limited



Engineered for clean energy

Annual Report 2015

ENGINEERED FOR CLEAN ENERGY



We delivered the first batch of **NATIONAL VI COMPLIANT ENGINES** to the Beijing Public Transportation Group in 2015;

We launched the second- generation **HYBRID ENGINE COMPLIANT** with National V emission standards which is the latest design incorporating a gas engine with an ISG generator in 2015 ;

We launched various **TIER 3 COMPLIANT DIESEL ENGINES** for both construction and agriculture applications in China in 2015;

We launched **4 NEW ENGINE MODELS** meeting China's latest emission standards for use in both on- and off-road applications in 2016;

Our YC6MK engine was awarded the **BEST ENVIRONMENTAL TECHNOLOGY AWARD IN 2014;**

We were awarded the **CHINA QUALITY AWARD NOMINATION IN 2016** which is China's Highest Product Quality Award.

YC6MK engine won the **"GOLDEN ENGINE AWARD"** at the Fifth Reliable Commercial Vehicle Engine Competition in 2016.

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

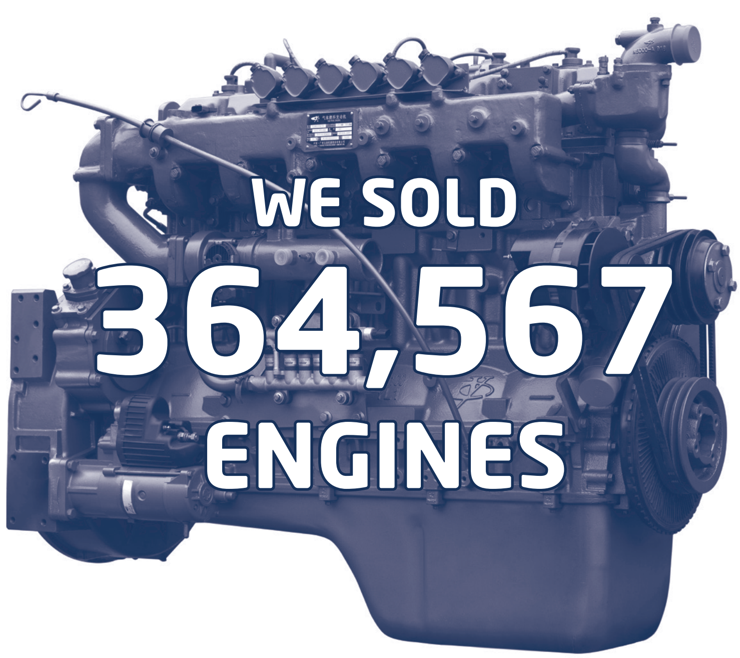
CONTENTS

FINANCIAL HIGHLIGHTS

	2013 Rmb'000	2014 Rmb'000	2015 Rmb'000
Revenue	15,902,355	16,436,142	13,733,437
Profit attributable to equity holders of the parent*	700,423	730,280	341,108
Total assets	19,293,168	18,773,336	18,815,602
Equity attributable to equity holders of the parent	6,391,573	6,988,432	7,239,617

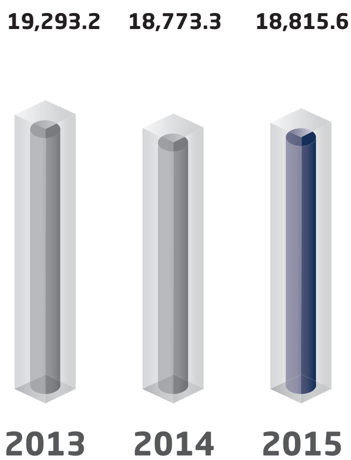
	2013	2014	2015
Earnings per share attributable to ordinary equity holders of the parent (Rmb per share)	18.79	19.36	8.81
Weighted average number of shares	37,267,673	37,720,248	38,712,282

*the term "parent" as used here refers to China Yuchai.

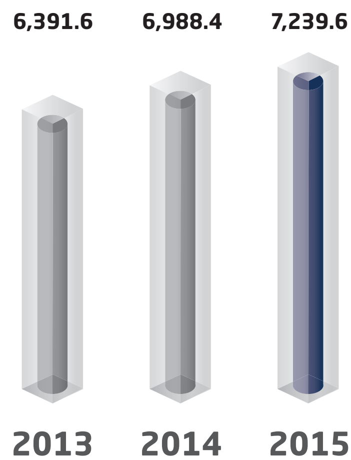


FINANCIAL HIGHLIGHTS

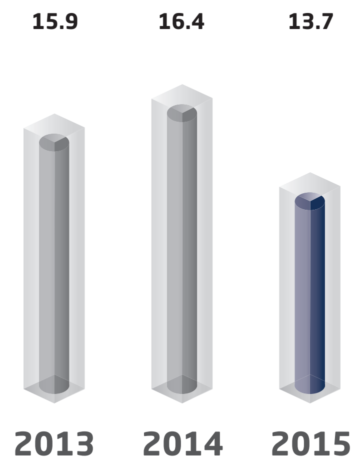
TOTAL ASSETS
(in Rmb million)



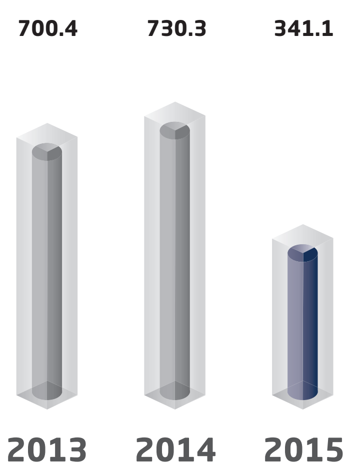
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in Rmb million)



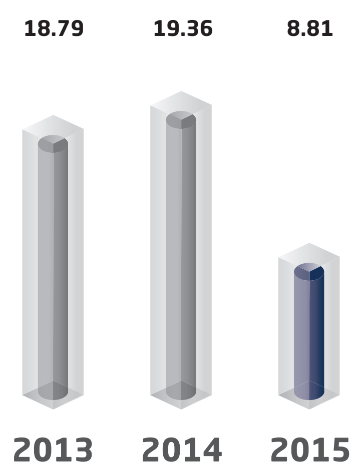
REVENUE
(in Rmb billion)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in Rmb million)



EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT
(in Rmb)



PRESIDENT'S STATEMENT

REVENUE

RMB13.7bn

OPERATING PROFIT

RMB0.8bn

ENGINES SOLD

364,567

Dear Shareholders,

We are pleased to report that notwithstanding the challenging environment in 2015, we continued to remain cash flow positive, retained our pricing power and profitability and maintained our leading position as a developer and manufacturer of a diverse portfolio of advanced engines for on- and off-road applications.

The year 2015 continued to be a transitional year for China's economy as the government continued with reforms to restructure and rebalance its economy to one more focused on domestic consumption. The Chinese economy grew 6.9% in 2015 led by lower construction and manufacturing activities and is expected to continue to grow at a rate of between 6.5% to 7% over the next 5 years. Although China's growth rate is substantially higher compared with many other countries, it is significantly lower than the growth registered in the years following the 2008 global financial crisis. As a result, we witnessed changes in various market segments in 2015. In addition to slower economic growth, our engine sales were also impacted by the implementation of stricter emission standards in both the on- and off- road markets. The new emission standards were introduced to reduce the increased effects of widespread air pollution experienced across China. As the world's largest commercial vehicle market, growing exhaust emissions from both on- and off-road vehicles are a major contributor to the poor air quality in China. The government's generous incentives for electric vehicles ("EV") as part of its efforts to develop the new-energy vehicle industry have led to increased sales of EVs which has affected sales of our diesel and natural gas engines. In addition, the global glut of crude oil in 2015 saw large declines in oil prices which significantly reduced the demand for natural gas engines in China impacting on our sales in this segment.

Based on a review of industry statistics for 2015, the overall sales of commercial vehicles (excluding gasoline powered and electric powered vehicles) declined 14.4%. Sales of heavy- and medium-duty trucks and buses recorded greater declines compared with the overall change in 2015. As one of the largest commercial vehicle engine manufacturer with the broadest product line in

PRESIDENT'S STATEMENT

China, our unit sales decline of 24.6% was consistent with sales decreases in the heavy- and medium-duty markets. However, the smaller decline in our net revenue of 16.4% to RMB 13.7 billion (US$ 2.1 billion) was mainly attributable to a higher average selling price as we sold more National IV-compliant engines. Due to changes in the operating environment, we disposed our entire shareholding interest in Xiamen Yuchai Diesel Engines Co., Ltd. ("Xiamen Yuchai") to a third party and consolidated all our operations at our main manufacturing plant in Yulin City. The Xiamen Yuchai assembly facility historically supplied engines and parts to several large customers in the surrounding regions. We continue to support these important customers from our main facility in Yulin City. In addition, lean manufacturing techniques are used throughout our manufacturing process to reduce costs and continually improve efficiencies. Selling, general & administrative expenses were reduced by 6.3% in 2015. We also enjoyed the full benefits of our new foundries resulting in lower rejection rates and costs. Overall cost controls and productivity enhancements are our main priorities.

As demand in on-road markets remained sluggish, we placed more emphasis on the off-road markets as a growth area. We continue to position ourselves to penetrate many of the off-road market segments including agriculture, marine, power generation and others. Our engine sales to the off-road markets have increased from 27.6% of total sales in 2011 to 33.1% in 2015. In order to increase food production, the government has been encouraging farmers to use larger equipment which require more powerful engines. However, the upgrading of emission standards for off-road vehicles and engines from Tier 2 to Tier 3 had an adverse effect on both machinery OEMs and engine suppliers which resulted in slower sales. We remain optimistic for the marine market as China has many vessels along its rivers and long coastline. We continue to focus on the growth opportunities in the off-road markets both domestically and increasingly abroad as we continue to supply high quality engines to the on-road markets. Our new high horsepower engines and production capabilities will provide access to new market segments.

One of our growth strategies is to utilize joint ventures to develop technology and new engines, position the Company to penetrate new markets and enhance our engine offerings in the off-road markets. Our joint venture with Shentou Investments (Hong Kong) Limited, a company possessing distribution experience in Europe will exclusively sell our off-road diesel and natural gas engines (excluding marine engines) and spare parts and provide engine-related services throughout Europe. Our tie-up with MTU Friedrichshafen GmbH ("MTU"), a subsidiary of Rolls-Royce Power Systems, to produce the MTU S4000 series of diesel engines to augment our engine portfolio with state-of-the-art, Tier 3-compliant, high-speed large rating off-road engines will be based at our Yulin manufacturing facility and initially focus on sales within China with export potential in the future. We will continue to increase our investment in research and development ("R&D") to offer a suite of advanced engines in China. We increased our R&D investment in 2015 by 2.5% to RMB 507.0 million (US$ 77.5 million) and anticipate further increases in the future due to the implementation of stricter emission standards. This is a key long-term growth strategy as we develop diesel, natural gas, and hybrid engines to provide a wide variety of engines to meet our customers' diverse needs in the light-, medium-, and heavy-duty engine markets. Our R&D proficiency has resulted in an engine portfolio consisting of 30 engine series across 10 engine platforms representing one of the broadest product lines in the world's largest automotive market. New high horsepower engines have been designed to leverage our brand name and reputation for quality, and increase our presence in the market for larger engines up to 80 liters for the marine and power generation segments.

On the product development front, we also collaborate with renowned organizations such as AVL of Austria, FEV of Germany, SWRI of USA and Ricardo of UK to develop good quality engines. The resources of prestigious universities including Brunel University London, Tsinghua University, Tianjin University and Shanghai Jiaotong University also played an important role in talent development for our

PRESIDENT'S STATEMENT

research and development program. Due to our outstanding track record of achievement, we were put in charge of 10 national research subjects as part of the Chinese government's 863 program.

One of our key targets is to develop engines compliant with higher emission standards prior to their application nationwide. This approach ensures we have the engines to take advantage of growth opportunities when certain customers, such as bus operators in the larger cities, require engines beyond the current national standards. We have already sold engines compliant with National V and VI emission standards and we continue to add new models to our engine portfolio. We were also one of the first producers of natural gas and hybrid engines in China.

Ten new engines were launched in 2015. Three new engines meeting the requirements for the newly introduced Tier 3 emission standards for off-road diesel engines were launched. Two of these new models were designed for the loader, excavator and forklift markets. The YC6TD600L-C30 marine engine was also launched and represented the first Tier 3 compliant marine engine developed in China. Five more advanced National V-compliant engines were introduced for various truck and bus markets as we expand our portfolio compliant with this future standard. Light-duty vehicle sales have been more durable in the current environment and we continue to increase our product offerings to meet this opportunity. Our advancing engine technology ensures that we better serve current customers as well as creates future growth opportunities.

The National V emission standard is expected to be implemented nationwide in 2017 and we have increased our engine model offerings compliant with this standard. In early 2016, we launched four new National V-compliant engines for the light-, medium- and heavy-duty markets and new energy segments. Improving and protecting the environment is a key goal of China's 13th Five Year Plan and our new engines will help reduce the country achieve this aim. The YC6K12 and YC6MK are heavy-duty diesel engines meeting global standards for fuel consumption and weight, and are compliant with National IV and V emission standards. These engines were developed and manufactured by Y&C Engine Co., Ltd. ("Y&C"), a joint venture between our main operating subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL"), and a company jointly established by China International Marine Containers Group Ltd. and Chery Automobile Co., Ltd.

We continue to gather accolades and awards from our OEM customers in 2015 including the Dongfeng Group which is our largest customer. In particular, we won the "Excellent Supplier" award from Dongfeng and Jianghuai Auto (JAC) and the annual awards for "Excellent Supplier" and "Outstanding Contribution Supplier in R&D" from Dongfeng Liuzhou Motor. In addition, we also won the following awards: "The China Patent Excellence Award" at The 17th SIPO Award for Outstanding Patented Invention from The State Intellectual Property Office (SIPO), our YC6K engine won the "Fuel Saving Champion Engine" in the 6x4 Trailer class at The 8th China International Truck Fuel Saving Competition, and "The National Advance Enterprise on Quality Inspection Award" from the China Association for Quality Inspection. This is a testimony of our R&D efforts and dedication to building advanced engines and providing superior services to all our customers. We take seriously our responsibility of being a good corporate citizen focused on 'green technology' to create a sustainable environment for future generations.

We have further broadened our presence in the overseas market as our exports sales grew approximately 22% in 2015. In addition to nearby markets in Southeast Asia, we continue to penetrate into other territories across the world such as the Middle East, Central and South America, and Europe. We believe there are good growth opportunities overseas and we are working towards increasing our market share in these regions.

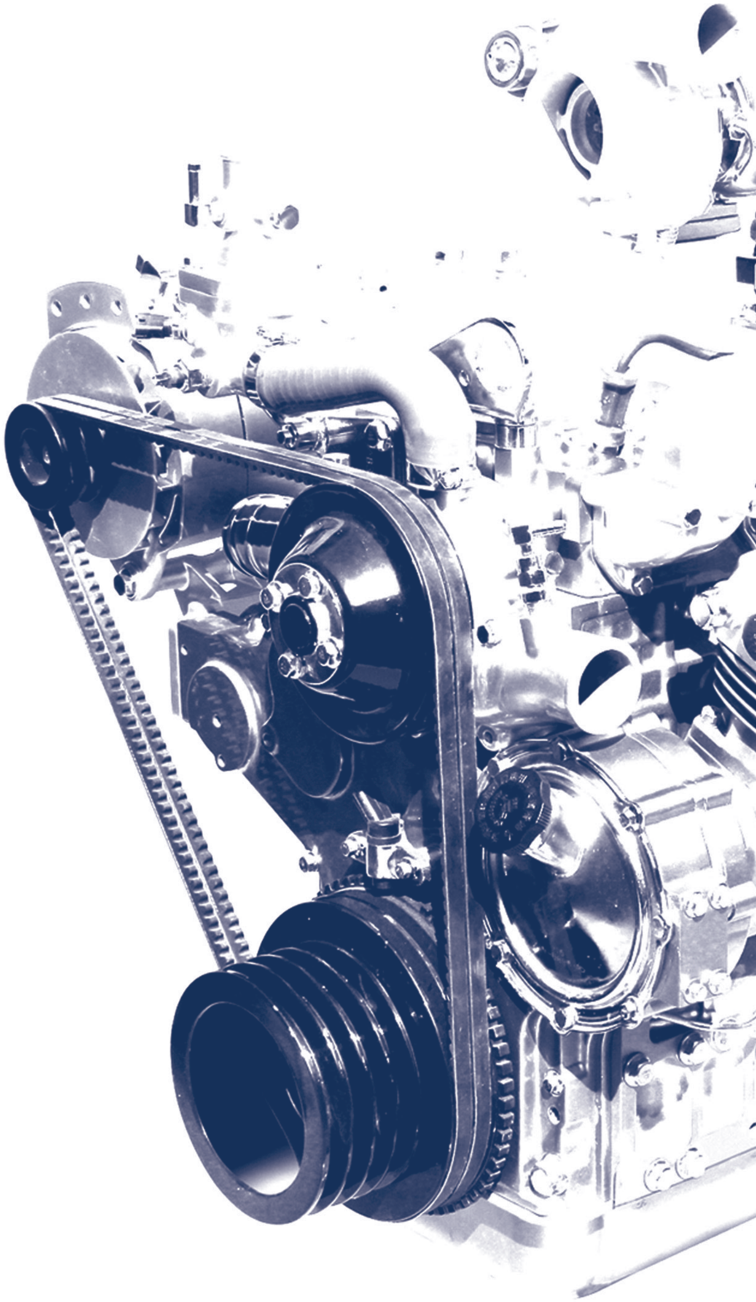
After reviewing our profitable results in 2014, future

PRESIDENT'S STATEMENT

capital and operational needs, and our outlook, we shared our success with our shareholders by paying an elective dividend of US$1.10 per share in July 2015 for financial year 2014. The cash dividend totaled US$23.4 million and an additional 1,102,634 new shares were issued to shareholders based on their elections. Through our operations and financial discipline, we created positive cash flow which increased cash and bank balances from RMB 2.5 billion at the end of 2014 to RMB 3.8 billion (US$587.0 million) at December 31, 2015.

On May 12, 2016, we announced the declaration of a dividend of US$0.85 per share of common stock for financial year 2015. The dividend payment will be made either wholly in cash or in new shares at the option of the stockholder. The number of shares to be issued will be determined based on the volume weighted average trading prices of the Company's common stock on the New York Stock Exchange during the period from June 20 to and including June 22, 2016. The dividend is payable on June 29, 2016 to shareholders of record at the close of business on May 26, 2016 with an ex-dividend date of May 24, 2016.

Through our corporate culture focused on superior product quality and stringent financial discipline, we strive to maintain market leadership by building competitive advantages in technology, low-cost manufacturing, our large service network and broad product lines to capture opportunities across multiple segments. We remain optimistic about the long-term outlook for GYMCL in the commercial engine markets in China and abroad. The changes we have made in 2015 have positioned us for continued success.



Weng Ming HOH
President,
July 8, 2016

总裁致词

尊敬的股东们，

我们很荣幸向您报告，在2015年这一个充满挑战的大环境期间，我们继续保持着良好的现金流、定价能力及盈利能力，并保持我们作为道路及非道路应用多类型的先进发动机的开发者和制造商在行业的领先地位。

2015年是中国经济持续变革的一年。中国政府继续深化重组改革，并转向以内需推动经济。由于建筑业和制造业低迷，2015年中国经济增长6.9%，在未来五年将以6.5%到7%的增长率进行增长。尽管与许多其他国家比较，中国仍保持较高的增长率，但是已经明显低于2008年金融危机后的增长速度。这也导致2015年期间各细分市场的变化。除经济增长放缓因素，我司的发动机销售也受到道路和非道路市场更严格的排放标准执行的影响。新排放标准的推行主要是为了减低全中国广泛的空气污染的影响。作为全球最大的商用车市场，在道路和非道路用车所产生的废气排放成为影响空气质量问题的主要因素。同时政府发展新能源电动车一大举措是为电动车提供丰厚补贴和鼓励，进一步促使电动车销量的上升，从而影响柴油和天然气发动机的销售。另外，2015年全球原油供应过剩导致的中国油价显著下降，也减少了对天然气发动机的需求，进而影响我们在该领域的销售。

基于2015期间行业统计总体情况,商用车辆的整体销售（不含汽油动力和电动车辆）下降了14.4%。与总体相比，重型卡车、中型卡车和客车的销售量大幅下降。作为中国最大的商用车发动机制造商之一，由于拥有广泛的产品生产线，我们中型和重型卡车发动机的销售量也下降了24.6%。同时净收入小幅下降16.4% ，至137亿元人民币（合计21亿美元） ，主要是归因于我们在平均销售价格较高的国四发动机的销售量的提高。由于经营环境的变化，我们把厦门玉柴柴油发动机有限公司（“厦门玉柴”）的股权出让给第三方，并把原有业务重新整合到我们在玉林的主要生产基地。原厦门玉柴的组装设备一直为周边数位大客户提供发动机和零部件服务，我们会继续在玉林生产基地为这些重要客户提供支持。此外，我们在生产过程中采用的精益生产技术，并不断减低成本和提供生产效率。2015年度销售、综合和管理费用有效下降了6.3%。同时新铸造厂的低废品率和低费用也令公司受益不少。自2015年起，我们会把精力集中于成本控制和生产率提高上。

由于道路用车市场的疲弱，我们更大的关注于非道路用发动机市场，并以此作为重要潜在增长领域。我们继续发展非道路市场的多个细分领域如农用、船用，发电机设备等。我们在非道路市场上的发动机销量占销售总额的比率从2011年27.6%上升到2015年的33.1%。为了提高粮食生产，政府需要配备更大马力的大型机器设备，借以整合农场。非道路用机从第二阶段排放标准向第三阶段排放标准的升级大大影响了OEM和发动机供应商的销售。但鉴于中国众多河流及漫长的海岸线，我们仍对船舶用发动机市场保持乐观态度。我们会继续为道路用机市场提供高质量的发动机的同时，牢牢抓住海内外非道路用发动机市场的发展机遇。。同时，我们新型的高马力发动机和相应的生产能力为公司进入新的细分市场提供坚实的后盾。

我们其中一个发展战略是利用合资公司开发技术并研发新型发动机，在为公司打开新的市场的同时提高我们在非道路市场上的供给。我们与深投投资（香港）有限公司共同设立合资公司。该公司在欧洲拥有广泛的发动机分销经营经验，并在欧洲地区独家销售我们的非道路柴油和天然气发动机（不包括船舶用发动机）及零部件并提供发动机相关的服务。我们也与MTU腓得烈斯哈芬有限公司（“MTU”），劳斯莱斯动力系统的子公司，合作生产MTUS4000系列柴油发动机，这有效提高了我们符合非道路用第三阶段排放标准（T3）的高速大功率非道路发动机发动机组合至最先进水平，并以玉柴生产厂房为基地，主要专注于中国销售及发展日后出口潜力。为在中国市场提供一系列先进的发动机，并预期未来将会实施更加严格的排放标准，我们继续加大在研发方面的投资。在2015年，我们的研发费用提高2.5%到5.07亿元人民币（合计7，750万美元）。发展柴油、天然气和混合式发动机的关键发展战略是扩大产品线，以满足不同客户对轻机、中机和重机上不同的需求。我们的研发成果包括开发十个发动机生产平台并开发三十多种发动机系列，并代表世界上最大的汽车市场里拥有最大的生产线之一。同时我们也在80L的大型发动机市场，如船用和发电用发动机提高了市场占有率。

在我们的产品发展前线中，我们与知名组织如奥地利AVL、德国FEV、美国SWRI和英国的Ricardo合作开发高质量的发动机。另外知名大学合作资源包括伦敦布鲁内尔大学、清华大学、天津大学和上海交通大学均在人才发展为我们的研发项目提供强力的后盾。由于我们出色的表现，我们现在负责十项国家级研究项目，并成为中国政府863计划的重要组成部分。

我们另一个发展战略是在全国范围实施前开发能够符合更高排放标准的发动机。该策略确保我们的发动机能够优先赢得部分客户，如需要高于当前国家水平的大城市的公共汽车公司。现在我们已经开始销售国五和国六排放标准的发动机，并继续在发动机产品组合里增加了新的型号。我们也是中国境内第一批生产天然气和混合动力的企业之一。

总裁致词

在2015年，我们一共向市场投入十款新型发动机。其中三款为符合新推行的非道路用发动机第三阶段排放标准的新型发动机。另外二款发动机设计用于装载机、挖掘机和叉车市场。YC6TD600LC3船用发动机代表中国首台符合第三阶段船用发动机投入市场。还有五款符合国五排放标准的发动机并应用于不同的卡车、客车之中，并提高了我们在该领域的产品标准。在当前的环境，对于销售比较持久稳定的轻机，我们会把握时机努力提高此类产品的市场供给。我们的先进发动机技术确保了我们能够更好的为现有的客户服务，同时也为公司未来发展提供了坚实的基础。

考虑到国五排放标准预计于2017年会在全国范围内强制实施，我们也提升原有发动机型号使其符合符合该标准。在2016年初，我们在轻机、中机和重机市场和新能源市场投入四款符合国五排放标准的发动机。环境的改善和保护是中国第十三个五年计划的重要目标，我们新的发动机会全面配合国家达到减少排放的目标。YC6K12和YC6MK是符合轻量低油耗国际标准的重型柴油发动机，同时也符合国四和国五的排放标准。该发动机是由我们的主要运营子公司广西玉柴机器股份有限公司与中国国际海运集装箱集团有限公司和奇瑞汽车有限公司共同合资设立的玉柴联合动力发动机有限公司开发和制造。

在2015年期间，我们持续收到OEM客户的赞誉，其中包括我们最大的客户东风集团。同时我们还赢得东风和江淮汽车的“卓越供应商奖”和东风柳州汽车的“年度卓越供应商”和“研发突出贡献供应商奖”。另外，我们获得第十七届中国专利奖的“中国专利优秀奖”。我们的YC6K发动机在第八届中国国际卡车节油大赛中赢得6X4牵引车“节油冠军发动机”。我们也获得中国质量检验协会的“中国质量检验工作先进企业”称号。以上均是我们努力研发先进发动机，并所有的客户提供优质的服务的见证。同时我们非常重视作为企业公民的责任，关注绿色科技，并为子孙后代创造一个可持续发展的环境而努力。

我们进一步扩大海外市场，并在2015年获得20%的出口销量增长率。除了周边的东南亚市场，我们继续发展到世界其他区域如中东、中美洲、南美洲和欧洲。我们相信，海外市场有良好的增长机会，我们也在努力提高在这些地区的市场占有率。

回顾2014年的盈利情况、未来资金、运营需求，以及公司前景，在2015年7月，我们与股东共同分享业绩并向股东支付每股1.1美元2014年财政年度可选择性分红。现金分红总额为2，340万美元现金和根据股东选择增发了1,102,634股股票。经过运营和财务管理，我们维持了正向现金流，包括2014年年底25亿元人民币的现金和银行存款，截止至2015年12月31日上升到38亿元人民币（合计5.87亿元美元）。

在2016年5月12日，我们公告2015年财政年度的每股分红为0.85美元。根据股东的选择，分红会以现金或者增发股票的方式派发。增发股票的股数会根据以2016年6月20日到22日期间美国证券交易委员会的平均交易价格确定。分红会在2016年6月29日派发给于2016年5月26日营业时间结束前登记的股东，除息日期为2016年5月24日。

我们的企业文化十分注重良好的产品质量控制和财务管理，亦通过建立具有竞争优势的技术，减低制造成本，扩大服务网络和建立跨越多个领域的广泛产品线，努力保持公司在市场的领导地位。同时，我们对玉柴的海内外商用发动机的长远发展前景持乐观态度。我们在2015年度做出的改进亦确保了公司持续的成功。

何永明
总裁
2016年7月8日

CORPORATE BACKGROUND

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

The Group's principal operating subsidiary Guangxi Yuchai Machinery Company Limited ("GYMCL") is one of the largest engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL produces, assembles and sells a comprehensive range of products covering light-, medium- to heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, marine and agriculture applications, engine parts and components and diesel-powered generators. The engines produced by GYMCL range from diesel to natural gas and hybrid engines.

GYMCL's products range from 1.2L to 80L over 10 engine platforms with a power range from 60PS to 2400PS. In its current portfolio, the number of engine series offerings is 30 and GYMCL is intending to further expand its reach in the natural gas engine market as well as in the off-road markets with improved product offerings such as the high horsepower marine diesel engine and power generator engine. GYMCL produces diesel engines compliant with National IV and V emission standards, and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards and develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. GYMCL also has the ability to produce diesel engines compliant with Tier 3 emission standards for use in off-road machinery.

GYMCL has built a strong reputation among vehicle manufacturers and customers for the performance and reliability of its products as well as its after-sales customer service. CYI currently owns 76.4% of GYMCL's outstanding shares through six wholly-owned subsidiaries.

CYI has also invested in HL Global Enterprises Limited ("HLGE") which is listed on the main board of the Singapore Exchange. Currently, CYI holds a 48.9% shareholding interest in HLGE.

The core businesses of HLGE are hospitality operations and property development.

公司背景

中国玉柴国际有限公司（“玉柴国际”）于1993年4月29日在百慕大注册成立。玉柴国际是新加坡丰隆亚洲有限公司（“丰隆亚洲”）的子公司并且在纽约证券交易所上市，其主要运营地区在中国。

玉柴国际的主要子公司广西玉柴机器股份有限公司（“广西玉柴”）是中国最大的发动机制造商之一。广西玉柴位于中国南部的广西壮族自治区玉林市。公司生产、制造和销售多样化的机型产品，包括满足卡车、客车、乘用车、工程机械、船机和农用机械需求的轻型、中型和重型发动机、发动机零部件及柴油发电机。广西玉柴生产的的发动机包括从柴油发动机至天然气和混合动力发动机。

广西玉柴产品涵盖十个发动机生产平台，主要机型容量从1. 2升到80升，功率从60马力到2400马力的各种类型发动机。依托于现有组合，其有30个系列的发动机并且将进一步扩大其在燃气发动机及非道路发动机市场份额，通过大马力的船用柴油发动机及发电机等改善产品组合。玉柴生产符合国四与国五排放标准的柴油发动机，及国五排放标准的天然气发动机, 其也有能力生产一定的符合国六排放标准的柴油发动机和天然气发动机，同时研发替代能源及环境友好型混合动力发动机。玉柴同时也有能力生产符合国家第三阶段排放标准的满足非道路应用的柴油发动机。

广西玉柴以其高效可靠的产品性能及卓越的售后服务在汽车制造商和消费者中享有极高的声誉。目前玉柴国际通过其6家全资子公司持有广西玉柴76. 4%的股权。

此外，玉柴国际投资一家新加坡交易所主板上市的公司–丰隆环球有限公司（“丰隆环球”）。玉柴国际目前持有丰隆环球48. 9%的股权。

丰隆环球的核心业务是酒店经营与房地产开发。

OUR CHINA-WIDE PRESENCE

Guangxi Yuchai Machinery Company Limited
公司总部

35 regional offices
玉柴办事处

2,791 customer service stations
玉柴技术服务站

As of May 2016

YUCHAI OVERSEAS NETWORK

128

OVERSEAS SERVICE AGENTS APPOINTED AS OF MAY 2016

14

OVERSEAS OFFICES

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 February 29, 2016, there were eight 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 and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yi Yong 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
YAN Ping(1)	Director	2012
WU Qi Wei(1)	Alternate Director to YAN Ping	2012
NEO Poh Kiat (1)(2)(3)	Director	2005
TAN Aik-Leang (1)(3)	Director	2005
HAN Yi Yong (1)	Director	2010
HO Chi-Keung Raymond(2)(3)	Director	2013
LEONG Kok Ho(1)	Chief Financial Officer	2012
FOO Shing Mei Deborah	General Counsel	2007
Codan Services Limited	Secretary	2015

Mr. Meng Choong Wong was appointed a non- executive director of the Company on August 11, 2015 and resigned on January 5, 2016.

(1) Also a Director of Guangxi Yuchai Machinery Company Limited ("Yuchai").
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Also a Director of HL Global Enterprises Limited ("HLGE").

BOARD OF DIRECTORS

MR. HOH WENG MING was appointed President and a Director of the Company on July 17, 2013 and November 11, 2011 respectively. He was the Chief Financial Officer of the Company from May 1, 2008 to November 10, 2011. He is also a Director of Yuchai and HLGE with effect from December 26, 2008 and February 16, 2011 respectively. Mr. Hoh has more than 25 years of working experience in accounting and financial management positions with extensive regional experience in Singapore, Malaysia, New Zealand, Hong Kong and China. He has worked in various finance roles with companies including Johnson Electric Industrial Manufactory Limited as well as Henan Xinfei Electric Co., Ltd., a subsidiary of Hong Leong Asia. Previously, he held the position of Financial Controller of the Company from 2002 to 2003. Mr. Hoh has a Bachelor of Commerce Degree majoring in Accountancy from the University of Canterbury, Christchurch, New Zealand and an M.B.A. degree from Massey University, New Zealand. He is a Chartered Accountant in New Zealand and Malaysia and a Fellow Member of the Hong Kong Institute of Certified Public Accountants.

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

MR. KWEK LENG PECK is a Director of the Company. He is a member of the Kwek family which controls the Hong Leong Investment Holdings group of companies. He is an Executive Director of Hong Leong Asia and Hong Leong Investment Holdings Pte. Ltd. and the non-executive Chairman of Tasek Corporation Berhad. He also sits on the boards of HL Technology, Hong Leong China, Yuchai, City Developments Limited, Hong Leong Finance Limited and Millennium & Copthorne Hotels Plc, as well as other affiliated companies. He has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

MR. YAN PING is a Director of the Company and the Chairman of the Board of Directors of Yuchai. He is also the Chairman of the State Holding Company. The State Holding Company which is owned by the City Government of Yulin in Guangxi Zhuang Autonomous Region, China, is a 22.1% shareholder in Yuchai. Prior to his above appointments, Mr. Yan held various China-government related positions, including as Deputy Secretary-General of the Yulin Municipal Government, as Director of the Yulin Municipal Development and Reform Commission and as Deputy General Manager of Guangzhou-Shenzhen Railway Company, Ltd. Mr. Yan holds a Bachelor of Engineering Degree from Dalian Railway College and a Master's degree in Statistics from the Dongbei University of Finance and Economics.

MR. WU QI WEI is an Alternate Director of the Company to Mr. Yan Ping and 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 a Director of the Company and Yuchai. He is the Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd., a financial advisory firm in Singapore. 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 a director of Asia Airfreight Terminal Co Ltd, Goldstate Capital Fund Management Co Ltd, Cambodia Post Bank Plc, Fullerton Credit (Sichuan) Ltd, Fullerton Credit (Chongqing) Ltd and Fullerton Credit (Yunnan) Ltd.. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

MR. TAN AIK-LEANG is a Director of the Company and Yuchai. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan was also a Director of the Risk Management Association, Hong Kong Chapter from May 2000 to January 2016. Mr. Tan graduated in Accounting from Western Australian Institute of Technology (now known as Curtin University). He is a Fellow member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia,

BOARD OF DIRECTORS

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

MR. HO CHI-KEUNG RAYMOND 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. He was in private practice as a solicitor in Hong Kong, Mainland China and Canada between 1983 and 2006. He is now practicing independently as an arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to that between 1999 and 2006, he was a partner of Fred Kan & Co., a law firm based in Hong Kong with operations in Tokyo, Japan and China. He holds the degrees of Bachelor of Laws and Master of Social Sciences 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 UK Chartered Institute of Arbitrators and is currently listed on the HKIAC's panel of arbitrators. He is a non-practising member of the Law Society of Hong Kong, The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho currently is 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. HAN YI YONG is a Director of the Company and Yuchai. He is also the Chairman and a director of Coomber as well as the Company Secretary to Yuchai's Board of Directors. He holds a Bachelor's Degree in Vehicle Engineering from the Shandong University of Technology and a Master's Degree in Power Machinery and Engineering from Guangxi University.

EXECUTIVE OFFICERS OF THE COMPANY

DR. PHUNG KHONG FOCK THOMAS was appointed Chief Financial Officer of the Company on June 1, 2016. He has over 20 years' experience in both the manufacturing and service sectors. Prior to this appointment, Dr. Phung was the East Asia Pacific Finance Director for Alstom Transport (Singapore) Pte Ltd ("Alstom"). Prior to Alstom, Dr. Phung was with Bombardier Transportation group as Director Controlling Asia Pacific for four years and Commercial Manager/Site Controller of joint venture operations in China for three years. Preceding this, he was Finance Director & Deputy General Manager at Shandong Asia Pacific SSYMB Pulp & Paper Co. Ltd. where he was based in Shandong, China for three years. Dr. Phung has also worked at Thales GeoSolutions (Asia Pacific), Glaxo SmithKline Singapore Pte Ltd and Baker Oil Tools, a Baker Hughes company. Dr. Phung started his career as a credit authorizer at Bank of America in Singapore. Dr. Phung received his PhD in Finance from Cass Business School, City University in London in 1998 and an MBA in Financial Management from Hull University Business School in Hull, UK in 1994.

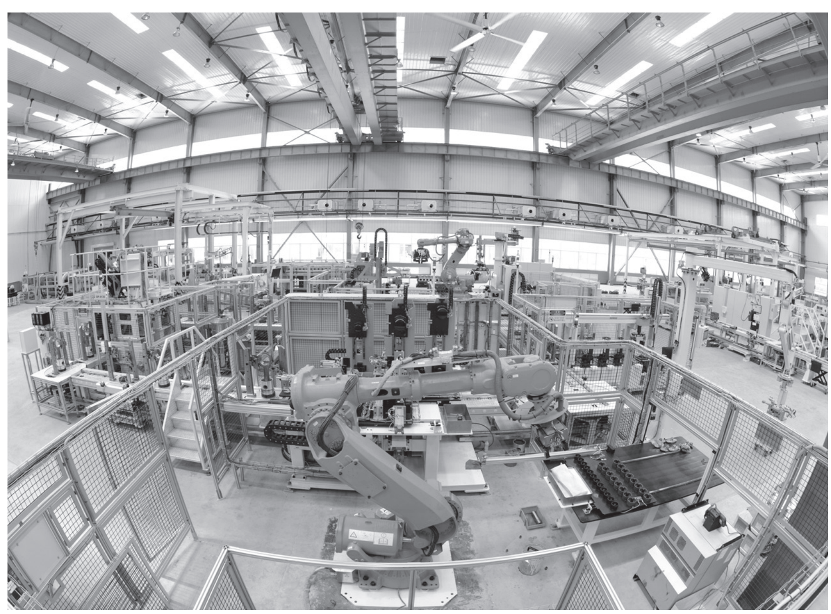
MS. FOO SHING MEI DEBORAH was appointed General Counsel of the Company with effect from December 10, 2007. Ms. Foo has more than 15 years' of commercial and corporate experience gained from various in-house positions in Singapore and Hong Kong. Prior to joining the Company, she held the positions of Vice President of Group Legal and Company Secretary at NASDAQ-listed Pacific Internet Limited. She holds a BA (Hons) in Law and History from the University of Keele, UK and a Masters of Law Degree in Commercial and Corporate law from the University of London, UK. She is a Barrister-at-Law (Middle Temple) and is admitted as an Advocate and Solicitor in Singapore.

MR. LAI TAK CHUEN KELVIN was appointed Vice President of Operations of the Company on June 7, 2010. He was appointed Chief Business Officer and a Director of Yuchai on March 11, 2011 and June 28, 2013 respectively. Mr. Lai holds a Bachelor of Business Administration in Management from the Open University of Hong Kong as well as a Postgraduate Certificate in Engineering Business Management from the University of Warwick, UK. He worked for 10 years as a marine engineer on ocean going vessels and later as a Port Engineer at the International Maritime Corporation. He has also worked for Rolls-Royce International Ltd in their power generation and industrial power business in China and Taiwan, and worked for Cummins Hong Kong Ltd as General Manager in their diesel engine distribution and aftermarket business.

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



CORPORATE GOVERNANCE

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

STANDARD FOR US DOMESTIC LISTED COMPANIES	CHINA YUCHAI INTERNATIONAL LIMITED'S PRACTICE
Director Independence	
• A majority of the board must consist of independent directors.	• Three of our eight directors, Messrs. Neo Poh Kiat, Tan Aik-Leang and Ho Chi-Keung Raymond are independent within the meaning of the NYSE standards.
Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over $120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.	
• 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.
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 meets 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 US companies.

CORPORATE GOVERNANCE

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 US companies.
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. Tan Aik-Leang 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, review 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.	

CORPORATE GOVERNANCE

• 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.
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.	• We intend to have our shareholders approve equity-compensation plans.
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, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.	• 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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2015, 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"). China Yuchai International Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). 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 IFRS, 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.

In our opinion, China Yuchai International Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of profit or loss, consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015 of China Yuchai International Limited and our report dated April 15, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Singapore
April 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited as of December 31, 2015 and 2014, and 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, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited's internal control over financial reporting as of December 31, 2015, 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 15, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Singapore
April 15, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Note	31.12.2013 Rmb'000	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Sales of goods	7	15,809,894	16,355,854	13,639,013	2,083,819
Rendering of services	7	92,461	80,288	94,424	14,427
Revenue	7	15,902,355	16,436,142	13,733,437	2,098,246
Cost of sales (goods)	8.1	(12,577,458)	(13,104,609)	(10,893,562)	(1,664,359)
Cost of sales (services)	8.1	(59,993)	(40,543)	(49,303)	(7,533)
Gross profit		3,264,904	3,290,990	2,790,572	426,354
Other operating income	8.2(a)	179,887	121,901	106,931	16,337
Other operating expenses	8.2(b)	(23,535)	(27,009)	(87,594)	(13,383)
Research and development costs	8.1, 8.3	(468,612)	(494,594)	(506,955)	(77,454)
Selling, distribution and administrative costs	8.1	(1,550,228)	(1,598,670)	(1,497,774)	(228,836)
Operating profit		1,402,416	1,292,618	805,180	123,018
Finance costs	8.4	(161,211)	(156,670)	(116,351)	(17,776)
Share of profit of associates	5	159	956	245	37
Share of losses of joint ventures	6	(79,245)	(30,711)	(2,936)	(448)
Gains arising from acquisitions	4	–	95,192	–	–
Profit before tax		1,162,119	1,201,385	686,138	104,831
Income tax expense	9	(222,147)	(179,639)	(176,818)	(27,015)
Profit for the year		939,972	1,021,746	509,320	77,816
Attributable to:					
Equity holders of the parent		700,423	730,280	341,108	52,116
Non-controlling interests		239,549	291,466	168,212	25,700
		939,972	1,021,746	509,320	77,816
Earnings per share	10				
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent		18.79	19.36	8.81	1.35
Weighted average number of shares:					
- Basic and diluted		37,267,673	37,720,248	38,712,282	38,712,282

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Profit for the year	939,972	1,021,746	509,320	77,816
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation	(3,728)	11,937	31,533	4,818
Transfer of reserve on initial equity interest in a joint venture on acquisition	–	(469)	–	–
Realization of foreign currency translation reserves upon disposal of assets classified as held for sale	10,770	–	–	–
Realization of foreign currency translation reserves upon liquidation of foreign operation	–	–	144	22
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	7,042	11,468	31,677	4,840
Total comprehensive income for the year, net of tax	947,014	1,033,214	540,997	82,656
Attributable to:				
Equity holders of the parent	697,466	741,244	375,646	57,393
Non-controlling interests	249,548	291,970	165,351	25,263
	947,014	1,033,214	540,997	82,656

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Note	31.12.2014	31.12.2015	31.12.2015
		Rmb'000	Rmb'000	US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	11	4,460,842	4,329,544	661,484
Investment property	12	–	7,437	1,136
Prepaid operating leases	13	424,591	392,455	59,961
Goodwill	14	212,636	212,636	32,487
Intangible assets	15	108,526	81,826	12,502
Investment in associates	5	3,175	3,379	516
Investment in joint ventures	6	272,216	266,784	40,760
Deferred tax assets	9	388,282	341,728	52,211
Long-term bank deposits	22	–	60,000	9,167
Other receivables	21	1,261	1,519	232
		5,871,529	5,697,308	870,456
Current assets				
Inventories	18	1,921,180	1,711,330	261,463
Trade and bills receivables	20	8,113,094	7,178,513	1,096,760
Prepayments		43,971	35,532	5,429
Other receivables	21	244,740	348,151	53,192
Prepaid operating leases	13	13,498	12,546	1,917
Other current assets	19	56,290	50,099	7,654
Cash and cash equivalents	22	2,291,345	3,474,364	530,827
Short-term bank deposits	22	193,440	7,195	1,099
Restricted cash	22	24,249	300,564	45,921
		12,901,807	13,118,294	2,004,262
Total assets		18,773,336	18,815,602	2,874,718

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Note	31.12.2014	31.12.2015	31.12.2015
		Rmb'000	Rmb'000	US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	23	1,840,227	1,955,720	298,802
Preference shares	23	21	21	3
Statutory reserves	25	302,780	298,221	45,564
Capital reserves		2,932	30,954	4,729
Retained earnings		4,924,767	5,012,934	765,895
Other components of equity		(82,295)	(58,233)	(8,897)
Equity attributable to equity holders of the parent		6,988,432	7,239,617	1,106,096
Non-controlling interests		2,163,382	2,190,452	334,665
Total equity		9,151,814	9,430,069	1,440,761
Non-current liabilities				
Interest-bearing loans and borrowings	16(b)	1,077,716	56,509	8,634
Other liabilities	16(a)	128	55	8
Deferred tax liabilities	9	134,224	127,419	19,468
Deferred grants	17	313,004	334,328	51,080
Other payables	27	120,588	115,341	17,622
		1,645,660	633,652	96,812
Current liabilities				
Trade and other payables	27	6,426,708	6,076,849	928,443
Interest-bearing loans and borrowings	16(b)	1,209,001	2,399,195	366,558
Other liabilities	16(a)	92	59	9
Provision for taxation		41,509	42,201	6,448
Provision for product warranty	28	298,552	233,577	35,687
		7,975,862	8,751,881	1,337,145
Total liabilities		9,621,522	9,385,533	1,433,957
Total equity and liabilities		18,773,336	18,815,602	2,874,718

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Attributable to the equity holders of the parent											Non-controlling interests	Total equity
	Issued capital	Preference shares	Statutory reserves	Capital reserves	Retained earnings	Reserves of assets classified as held for sale	Foreign currency translation reserve	Performance shares reserve	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2013	1,724,196	21	298,710	2,932	3,980,632	(13,784)	(89,618)	(85)	(166)	(925)	5,901,913	1,869,954	7,771,867
Profit for the year	–	–	–	–	700,423	–	–	–	–	–	700,423	239,549	939,972
Other comprehensive income/(loss)	–	–	–	–	–	13,784	(16,741)	–	–	–	(2,957)	9,999	7,042
Total comprehensive income for the year	–	–	–	–	700,423	13,784	(16,741)	–	–	–	697,466	249,548	947,014
Transfer to statutory reserves	–	–	2,272	–	(2,272)	–	–	–	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(72,744)	(72,744)
Dividends declared and paid (US$0.90 per share)	–	–	–	–	(207,708)	–	–	–	–	–	(207,708)	–	(207,708)
Liquidation of a subsidiary	–	–	(264)	–	–	–	–	–	–	–	(264)	–	(264)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	166	–	166	(4,166)	(4,000)
At December 31, 2013	1,724,196	21	300,718	2,932	4,471,075	–	(106,359)	(85)	–	(925)	6,391,573	2,042,592	8,434,165

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Attributable to the equity holders of the parent											
	Issued capital (Note 23)	Preference shares (Note 23)	Statutory reserves (Note 25)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 23)	Performance shares reserve (Note 23)	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2014	1,724,196	21	300,718	2,932	4,471,075	(106,359)	(85)	–	(925)	6,391,573	2,042,592	8,434,165
Profit for the year	–	–	–	–	730,280	–	–	–	–	730,280	291,466	1,021,746
Other comprehensive income	–	–	–	–	–	10,964	–	–	–	10,964	504	11,468
Total comprehensive income for the year	–	–	–	–	730,280	10,964	–	–	–	741,244	291,970	1,033,214
Shares issued during the year (Note 23)	116,031	–	–	–	–	–	–	–	–	116,031	–	116,031
Transfer to statutory reserves	–	–	2,064	–	(2,064)	–	–	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(162,331)	(162,331)
Dividends declared and paid (US$1.20 per share) (Note 24)	–	–	–	–	(274,524)	–	–	–	–	(274,524)	–	(274,524)
Cost of share-based compensation	–	–	–	–	–	–	5,348	–	–	5,348	–	5,348
Liquidation of a subsidiary	–	–	(2)	–	–	–	–	–	–	(2)	–	(2)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	8,762	–	8,762	(8,849)	(87)
At December 31, 2014	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	Attributable to the equity holders of the parent											
	Issued capital (Note 23)	Preference shares (Note 23)	Statutory reserves (Note 25)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 23)	Performance shares reserve (Note 23)	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2015	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814
Profit for the year	–	–	–	–	341,108	–	–	–	–	341,108	168,212	509,320
Other comprehensive income	–	–	–	–	–	34,538	–	–	–	34,538	(2,861)	31,677
Total comprehensive income for the year	–	–	–	–	341,108	34,538	–	–	–	375,646	165,351	540,997
Shares issued during the year (Note 23)	115,493	–	–	–	–	–	–	–	–	115,493	–	115,493
Transfer to statutory reserves	–	–	1,332	–	(1,332)	–	–	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(108,511)	(108,511)
Dividends declared and paid (US$1.10 per share) (Note 24)	–	–	–	–	(257,500)	–	–	–	–	(257,500)	–	(257,500)
Cost of share-based compensation	–	–	–	–	–	–	10,275	–	–	10,275	–	10,275
Disposal of a subsidiary	–	–	(5,891)	–	5,891	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	28,022	–	–	–	(8,762)	(11,989)	7,271	(29,770)	(22,499)
At December 31, 2015	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538	–	(12,914)	7,239,617	2,190,452	9,430,069
US$'000	298,802	3	45,564	4,729	765,895	(9,298)	2,374	–	(1,973)	1,106,096	334,665	1,440,761

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	31.12.2013	**31.12.2014**	**31.12.2015**	**31.12.2015**
	Rmb'000	**Rmb'000**	**Rmb'000**	**US$'000**
Operating activities				
Profit before tax	1,162,119	1,201,385	686,138	104,831
Adjustments to reconcile profit before tax to net cash flows:				
(Written back)/Impairment of doubtful debts (net)	(11,775)	(1,595)	32,938	5,032
Inventories written down	7,061	21,297	59,339	9,066
Reversal of write-down of inventories	(27,665)	(24,694)	(24,079)	(3,679)
Depreciation of property, plant and equipment	377,110	418,675	456,002	69,670
Amortization of prepaid operating leases	11,829	12,581	13,433	2,052
Dividend income from held for trading investment	(1,009)	(989)	–	–
Impairment of property, plant and equipment	9,163	10,433	2,873	439
Write-off of property, plant and equipment	–	15	4,931	753
Impairment of intangible asset	–	60,000	26,700	4,079
Share of net loss of associates and joint ventures	79,086	29,755	2,691	411
Exchange loss	16,736	13,044	45,354	6,929
Fair value (gain)/loss on foreign exchange forward contract	(12,198)	2,731	(15,506)	(2,369)
Loss on disposal of property, plant and equipment	3,427	5,984	14,874	2,273
Gain on disposal of prepaid operating leases	(11,437)	(194)	(2,511)	(384)
Loss on disposal of subsidiary	363	–	13,647	2,085
Gain on liquidation of joint venture	–	–	(348)	(53)
Gain on disposal of held for trading investment	(3,484)	–	–	–
Gain on disposal of assets classified as held for sale	(7,292)	–	–	–
Finance costs	161,211	156,670	116,351	17,776
Interest income	(78,939)	(45,824)	(41,314)	(6,312)
Fair value loss on held for trading investment	2,866	5,250	10,871	1,661
Cost of share-based payments	–	5,360	10,275	1,570
Gains arising from acquisitions	–	(95,192)	–	–
Write off of trade and other payables	–	(42,437)	(9)	(1)
Loss on dilution of equity interest in joint venture	–	–	2,848	435
Written back of impairment loss on development properties	–	–	(2,976)	(455)
Total adjustments	1,677,172	1,732,255	1,412,522	215,809

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	31.12.2013 Rmb'000	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Changes in working capital				
(Increase)/decrease in inventories	(302,693)	433,630	168,176	25,695
(Increase)/decrease in trade and other receivables	(1,322,998)	(85,712)	732,413	111,901
Increase/(decrease) in trade and other payables	790,171	(1,140,069)	(495,825)	(75,753)
(Increase)/decrease in balances with related parties	(90,891)	(137,956)	5,206	795
Decrease/(Increase) in development properties	8,923	828	–	–
Cash flows from operating activities	759,684	802,976	1,822,492	278,447
Income taxes paid	(170,042)	(267,290)	(135,774)	(20,744)
Net cash flows from operating activities	589,642	535,686	1,686,718	257,703
Investing activities				
Acquisition of subsidiaries	–	(16,690)	–	–
Additional investment in subsidiaries	–	(87)	(22,499)	(3,437)
Acquisition/additional investment in associates and joint ventures	(19,720)	(462)	(2,591)	(396)
Dividend received from held for trading investment	1,009	989	–	–
Dividends received from joint ventures	1,054	258	1,190	182
Interest received	70,608	50,081	46,402	7,090
Net cash inflow on liquidation of a joint venture	–	–	1,763	269
Proceeds from disposal of held for trading investment	21,341	–	–	–
Payment for prepaid operating leases	(58,941)	(8,300)	–	–
Proceeds from disposal of prepaid operating leases	19,792	2,518	4,505	688
Additions of intangible asset	(4,640)	(21,515)	–	–
Proceeds from disposal of property, plant and equipment	15,169	16,113	6,602	1,009
Purchase of property, plant and equipment	(441,434)	(660,930)	(397,817)	(60,781)
Proceeds from disposal of subsidiary, net of cash disposed	9,504	–	170,703	26,081
Proceeds from disposal of assets classified as held for sale	84,497	–	–	–
Proceeds from government grants	43,694	14,562	39,558	6,044
Placement of fixed deposits with banks	(319,619)	(97,069)	(66,901)	(10,221)
Withdrawal of fixed deposits from banks	24,095	197,513	193,589	29,577
Net cash flows used in investing activities	(553,591)	(523,019)	(25,496)	(3,895)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	**Rmb'000**	**Rmb'000**	**US$'000**
Financing activities				
Dividends paid to non-controlling interests	(72,744)	(156,908)	(94,899)	(14,499)
Dividends paid to equity holders of the parent	(207,708)	(158,493)	(142,007)	(21,697)
Interest paid and discounting on bills receivable	(159,497)	(153,617)	(108,279)	(16,543)
Payment of finance lease liabilities	(25)	(71)	(85)	(13)
Proceeds from borrowings	2,895,844	1,924,613	2,534,384	387,212
Repayment of borrowings	(3,078,286)	(1,939,054)	(2,772,862)	(423,648)
Proceeds from issue of bonds	–	–	398,777	60,927
Placement of fixed deposits pledged with banks for banking facilities	(167,329)	–	(300,564)	(45,921)
Withdrawal of fixed deposits pledged with banks for banking facilities	240,566	168,781	–	–
Acquisition of non-controlling interests	(4,000)	–	–	–
Net cash flows used in financing activities	(553,179)	(314,749)	(485,535)	(74,182)
Net (decrease)/increase in cash and cash equivalents	(517,128)	(302,082)	1,175,687	179,626
Cash and cash equivalents at January 1	3,127,602	2,596,536	2,291,345	350,080
Effect of exchange rate changes on balances in foreign currencies	(13,938)	(3,109)	7,332	1,121
Cash and cash equivalents at December 31	2,596,536	2,291,345	3,474,364	530,827

Significant non-cash investing and financing transactions

For the years ended December 31, 2013, 2014 and 2015, certain customers settled their debts with trade bills amounting to Rmb 14,012 million, Rmb 14,117 million and Rmb 12,032 million (US$ 1,838 million) respectively. These outstanding trade bills were classified as bills receivables in the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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, 2015 were authorized for issue in accordance with a resolution of the directors on April 15, 2016. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office of the Company is 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 incorporated under the laws of Bermuda on April 29, 1993. The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited ("Yuchai"), a Sino-foreign joint stock company which manufactures, assembles and sells diesel engines in the People's Republic of China (the "PRC"). The principal markets for Yuchai's diesel engines are truck manufacturers in the PRC.

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

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

Yuchai established three direct subsidiaries, Guangxi Yuchai Machinery Monopoly Development Co., Ltd. ("YMMC"), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ("YAMC") and Yuchai Express Guarantee Co. Ltd ("YEGCL"). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants' purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As YEGCL is a non-core business of the Group, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL to one of the subsidiaries of State Holding Company for a consideration of Rmb 85.8 million, and resulted in a loss of Rmb 10.9 million. In October 2015, Yuchai acquired 2.86% of equity interest in YAMC from State Holding Company with a purchase consideration of Rmb 4.2 million. As at December 31, 2015, Yuchai held an equity interest of 71.83% and 100% respectively in YMMC and YAMC. In July 2015, YMMC acquired 40% of equity interest in Yunnan Yuchai Machinery Industry Company Limited ("YMMC Yunnan") by way of offsetting trade receivables from the third party of Rmb18.3 million. As a result, YMMC Yunnan became a wholly owned subsidiary of YMMC. As at December 31, 2015, YMMC had direct controlling interests in 30 subsidiaries (2014: 30 subsidiaries) which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

1.2 Investment in Guangxi Yuchai Machinery Company Limited (cont'd)

In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd ("Xiamen Yuchai"). This new subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, Fujian province in the PRC.

In September 2015, Yuchai disposed Xiamen Yuchai to consolidate operations back to Yulin City. See Note 4 for transaction details.

In December 2007, Yuchai purchased a subsidiary, Guangxi Yulin Hotel Company Limited ("Yulin Hotel").

In August 2012, Yuchai established a wholly-owned subsidiary, Guangxi Yuchai Accessories Manufacturing Company Limited ("GYAMC"). YAMC has gradually shifted the business operations to GYAMC since November 2015.

(a) Cooperation with Zhejiang Geely Holding Group Co. Ltd.

On April 10, 2007, Yuchai signed a Cooperation Framework Agreement with Zhejiang Geely Holding Group Co., Ltd. ("Geely") and Zhejiang Yinlun Machinery Company Limited ("Yinlun") to consider establishing a proposed company to develop diesel engines for passenger cars in the PRC. Yuchai was the largest shareholder followed by Geely as the second largest shareholder.

In December 2007, further to the Cooperation Framework Agreement, Yuchai entered into an Equity Joint Venture Agreement with Geely and Yinlun, to form two joint entities, namely Zhejiang Yuchai Sanli Engine Company Limited ("Zhejiang Yuchai") in Tiantai, Zhejiang province, and Jining Yuchai Engine Company Limited ("Jining Yuchai") in Jining, Shandong province. The entities are primarily engaged in the development, production and sales of a proprietary diesel engine including the engines of 4D20 series and its parts for passenger vehicles. Yuchai was the controlling shareholder with 52% with Geely and Yinlun held 30% and 18% shareholding respectively in both entities. These two entities have been duly incorporated.

On May 22, 2012, further to discussion between Yuchai, Geely and Yinlun, in order to streamline the operations of both joint venture companies and to ensure that Yuchai's resources and costs are prudently allocated, a share swap agreement had been entered into between Yuchai, Geely and Yinlun such that Yuchai exits from Zhejiang Yuchai and focuses only on Jining Yuchai. The share swap involved Yuchai transferring its 52% shareholding in Zhejiang Yuchai to Yinlun, and Yinlun transferring its 18% shareholding in Jining Yuchai to Yuchai. Jining Yuchai has paid Zhejiang Yuchai a total consideration of Rmb 24.8 million which Zhejiang Yuchai had previously paid to Zhejiang Haoqing Manufacturing Co., Ltd. in respect of development of technology for 4D20 diesel engines. Upon the completion of the share swap on June 7, 2012, Yuchai holds a 70% shareholding in Jining Yuchai with Geely maintaining its 30% shareholding in Jining Yuchai. The technology for the 4D20 diesel engines purchased from Geely is entirely owned by Jining Yuchai. The share swap between Yuchai and Yinlun resulted in a cash payment of Rmb 25 million from Yinlun to Yuchai. Management considered that terms and conditions of these two arrangements and their economic effects and accounted for these transactions as a single transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

1.2 Investment in Guangxi Yuchai Machinery Company Limited (cont'd)

(a) Cooperation with Zhejiang Geely Holding Group Co. Ltd. (cont'd)

On September 28, 2014, Yuchai transferred its entire 70% shareholding interest in Jining Yuchai to an independent third party (the "Purchaser") for a consideration of Rmb 1.00 dollar. Geely also transferred its entire 30% shareholding interest in Jining Yuchai. Pursuant to the transfer, Yuchai entered into the following agreements with the Purchaser and Jining Yuchai:

(i) Loan Agreement

Under the terms of the loan agreement entered into between the Purchaser and Jining Yuchai with Yuchai and its wholly-owned subsidiary, Guangxi Yulin Hotel Company Limited ("Lenders"), the Lenders agreed to extend loans with tenure of two years, of amounts not exceeding Rmb 70 million, to Jining Yuchai, by way of entrusted loans, and such loans are solely to be utilised for Jining Yuchai's working capital purpose. As collateral for the loans, the Purchaser has agreed to pledge its entire shareholding interest in Jining Yuchai to the Lenders and Jining Yuchai has agreed to pledge all of its legal properties (including but not limited to buildings, land and machineries. etc.) to the Lenders. In the event of a breach of the Loan Agreement by Jining Yuchai, the Lenders are accorded the right to sell the pledged property and shareholding interest of the Purchaser in Jining Yuchai to ensure repayment of the loans granted by the Lenders.

In addition, in consideration of the Lenders' financial support to Jining Yuchai, as long as the Purchaser remains a shareholder in Jining Yuchai, irrespective of whether the loans remain outstanding or not, the Purchaser is prohibited from transferring all or part of its shareholding interest in Jining Yuchai to any third party without the prior written consent of the Lenders. The Purchaser has also granted the Lenders an irrevocable option to acquire all of its shareholding in Jining Yuchai at any time at a consideration not exceeding Rmb 250. These two provisions are also contained in a separate undertaking letter issued and signed by the purchaser to the Lenders.

The Purchaser, as long as it remains a shareholder in Jining Yuchai, will consult with the Lenders prior to the exercise of any of its powers in relation to Jining Yuchai. The Lenders have the right to recommend for appointment of Jining Yuchai's legal representative and executive director.

(ii) Management Agreement

In 2014, under the management agreement entered into between Yuchai and the purchaser, Yuchai has been appointed by the Purchaser to manage Jining Yuchai in all matters relating to the running of its operations and management of its assets. The term of the agreement is for one year which may be extended upon mutual agreement and the management fee is Rmb 240 per annum. In October 2015 the management agreement has renewed and extended for one more year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

1.2 Investment in Guangxi Yuchai Machinery Company Limited (cont'd)

(a) Cooperation with Zhejiang Geely Holding Group Co. Ltd. (cont'd)

According to the terms of the agreements, Yuchai has an existing arrangement to acquire the 100% shareholding interest in Jining Yuchai. In the event Yuchai exercises this irrevocable option to acquire all shareholding in Jining Yuchai and other rights that currently give the entity access to the returns, Yuchai will potentially obtain 100% shareholding interest of Jining Yuchai. Accordingly, the Group recorded a transaction with non-controlling interest for the deemed acquisition of 30% shareholding interest in Jining Yuchai. The difference of Rmb 36,673 (US$5,603) between the consideration and the carrying value of the additional interest acquired has been recognised as discount on acquisition of non-controlling interests within equity.

Yuchai through the above-mentioned contractual arrangements has the power to exercise effective control and is able to direct the activities of Jining Yuchai that most significantly affect its economic performance, and has the exposure or rights to receive benefits from Jining Yuchai from its involvement. Accordingly, Yuchai continues to consolidate the financial results of Jining Yuchai.

(b) Cooperation with Caterpillar (China) Investment Co., Ltd.

On December 11, 2009, Yuchai, pursuant to a Joint Venture Agreement entered into with Caterpillar (China) Investment Co., Ltd. ("Caterpillar"), incorporated Yuchai Remanufacturing Services (Suzhou) Co., Ltd. ("Yuchai Remanufacturing") in Suzhou, Jiangsu province to provide remanufacturing services for and relating to Yuchai's diesel engines and components and certain Caterpillar's diesel engines and components. The registered capital of Yuchai Remanufacturing is US$200 million. Yuchai holds 51% and Caterpillar holds the remaining 49% in the joint venture. Yuchai and Caterpillar hold joint control in governing the financial and operating policies of the joint venture and Caterpillar has veto rights in relation to certain key decisions despite having only 49% voting rights. As such, Yuchai accounted for Yuchai Remanufacturing as a joint venture.

On September 4, 2014, Yuchai, pursuant to an Equity Transfer Agreement entered into with Caterpillar, obtained 49% of equity interest in Yuchai Remanufacturing from Caterpillar. Upon the completion of the equity transfer transaction, Yuchai became legal and beneficial owner of 100% of the equity interest in Yuchai Remanufacturing. From the date of acquisition, Yuchai began to consolidate the financial results of Yuchai Remanufacturing. For details, please refer to Note 4.

(c) Cooperation with Chery Automobile Co., Ltd.

On August 11, 2009, Yuchai, pursuant to a Framework Agreement entered into with Jirui United Heavy Industry Co., Ltd. ("Jirui United"), a company jointly established by China International Marine Containers Group Ltd. and Chery Automobile Co., Ltd., and Shenzhen City Jiusi Investment Management Co., Ltd. ("Jiusi"), incorporated Y & C Engine Co., Ltd. ("Y & C") in Wuhu, Anhui province to produce heavy duty vehicle engines with the displacement range from 10.5L to 14L including the engines of YC6K series. The registered capital of the Y & C is Rmb 500 million. Yuchai and Jirui United each hold 45% in the joint venture with Jiusi holding the remaining 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

1.2 Investment in Guangxi Yuchai Machinery Company Limited (cont'd)

(c) Cooperation with Chery Automobile Co., Ltd. (cont'd)

In October 2014, Jiusi, Jirui United and Yuchai agreed to Jiusi transferring 5% of its shareholding interest in Y & C to Jirui United. As a result, Jirui United's shareholding interest in Y & C increased to 50%.

Yuchai and Jirui United hold joint control in governing the financial and operating policies of the joint venture, and share the financial results of Y & C based on respective shareholding percentage accordingly.

(d) Cooperation with Guangxi Skylink Software Technology Co., Ltd.

On February 8, 2013, Yuchai, pursuant to a joint venture agreement entered into with Guangxi Skylink Software Technology Co., Ltd. ("Guangxi Skylink"), incorporated Guangxi Yineng IOT Science & Technology Co., Ltd. ("Guangxi Yineng") in Nanning, Guangxi province, to design, develop, manage and market an Electronic Operations Management Platform. The registered share capital of Guangxi Yineng is Rmb 36 million. Yuchai holds 40% and Guangxi Skylink holds the remaining 60% in the joint venture. Yuchai and Guangxi Skylink hold joint control in governing the financial and operating policies of the joint venture, and share the financial results of Guangxi Yineng based on respective shareholding percentage accordingly.

In July 2015, the Shareholders' Resolution of Guangxi Yineng approved the further capital injection from Guangxi Skylink. As a result, Yuchai's equity interest in Guangxi Yineng was diluted from 40% to 20%. Yuchai retains joint control of Guangxi Yineng.

1.3 Investment in Thakral Corporation Ltd.

In March 2005, the Company through Venture Delta Limited ("Venture Delta") and Grace Star Services Ltd. ("Grace Star") held 14.99% of the ordinary shares of Thakral Corporation Ltd. ("TCL"). TCL is a company listed on the main board of the Singapore Exchange Securities Trading Limited (the "Singapore Exchange") and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. Three directors out of eleven directors on the board of TCL were appointed by the Group. Based on the Group's shareholdings and representation in the board of directors of TCL, management concluded that the Group had the ability to exercise significant influence over the operating and financial policies of TCL. Consequently, the Company's consolidated financial statements include the Group's share of the results of TCL, accounted for under the equity method. The Group acquired an additional 1% of the ordinary shares of TCL in September 2005. As a result of the rights issue of 87,260,288 rights shares on February 16, 2006, the Group's equity interest in TCL increased to 19.4%.

On August 15, 2006, the Group exercised its right to convert all of its 52,933,440 convertible bonds into 529,334,400 new ordinary shares in the capital of TCL. Upon the issue of the new shares, the Group's interest in TCL has increased to 36.6% of the total issued and outstanding ordinary shares. During the year ended December 31, 2007, the Group did not acquire new shares in TCL. However, as a result of conversion of convertible bonds into new ordinary shares by TCL's third party bondholders, the Group's interest in TCL was diluted to 34.4%. On September 2, 2008, Venture Delta transferred 1,000,000 ordinary shares, representing 0.04% interest in TCL to Grace Star.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

1.3 Investment in Thakral Corporation Ltd. (cont'd)

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

On July 7, 2010, TCL made payment of cash distribution to shareholders pursuant to the Capital Reduction Exercise. Subsequent to the cash distribution, the Group began to sell its shares in TCL in the market. As of December 31, 2010, 580,253,000 shares in TCL had been disposed of and the Group's shareholding interest in TCL had reduced from 34.4% to 12.2%. In line with the decrease of the Group's shareholding interest in TCL, the Group's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2010, the Group did not exercise significant influence over the operating and financial policies of TCL. The Group's investment in TCL was classified as held for trading investment as they were held for the purpose of selling in the near term. The Group's investment in TCL was measured at fair value with changes in fair value recognized in other operating income/expenses in the statement of profit or loss.

In 2013, the Group further disposed of 116,284,000 shares in TCL in the open market at a total consideration of S$4.3 million, its shareholding interests in TCL decreased from 12.2% to 7.7% as of December 31, 2013.

On April 1, 2015, TCL proposed to undertake a share consolidation exercise to consolidate every 20 ordinary shares in the capital of TCL into 1 ordinary share. The share consolidation exercise was completed on May 11, 2015. Upon completion of the share consolidation exercise, the Company held 10,122,667 ordinary shares of TCL. As of December 31, 2015, the Company's shareholding interests in TCL remained at 7.7% (2014: 7.7%).

1.4 Investment in HL Global Enterprises Limited

On February 7, 2006, the Group acquired 29.1% of the ordinary shares of HL Global Enterprises Limited ("HLGE"). HLGE is a public company listed on the main board of the Singapore Exchange. HLGE is primarily engaged in investment holding, and through its group companies, invests in rental property, hospitality and property developments in Asia. On November 15, 2006, the Group exercised its right to convert all of its 196,201,374 non-redeemable convertible cumulative preference shares ("NCCPS") into 196,201,374 new ordinary shares in the capital of HLGE. Upon the issue of the new shares, the Group's equity interest in HLGE had increased to 45.4% of the enlarged total number of ordinary shares in issue. During the year ended December 31, 2007, the Group did not acquire new shares in HLGE. However, new ordinary shares were issued by HLGE arising from the third party's conversion of NCCPS, and the Group's interest in HLGE was diluted to 45.4%.

On March 26, 2010, the Group converted 17,300,000 of Series B redeemable convertible preference shares ("Series B RCPS") into ordinary shares in the capital of HLGE. On September 24, 2010, the Group further converted 16,591,000 of Series B RCPS into ordinary shares in the capital of HLGE. Meanwhile, 154,758 of new ordinary shares were issued by HLGE arising from third parties' conversion of NCCPS. As of December 31, 2010, the Group's interest in HLGE increased from 45.4% to 47.4%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Corporate information (cont'd)

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

On March 24, 2011, the Group converted 17,234,000 of Series B RCPS into ordinary shares in the capital of HLGE. On September 23, 2011, the Group further converted 17,915,000 of Series B RCPS into ordinary shares in the capital of HLGE. As of December 31, 2011, the Group's interest in HLGE increased from 47.4% to 49.4%.

On January 13, 2012, HLGE established a trust known as the HL Global Enterprises Share Option Scheme 2006 Trust (the "Trust") with Amicorp Trustees (Singapore) Limited as the trustee of the Trust (the "Trustee") pursuant to a trust deed dated January 13, 2012 entered into between HLGE and the Trustee (the "Trust Deed") to facilitate the implementation of the HL Global Enterprises Share Option Scheme 2006 (the "HLGE 2006 Scheme").

On the same date, the Group transferred 24,189,170 of Series B RCPS in the capital of HLGE, representing 100% of the remaining unconverted Series B RCPS, to the Trustee for a nominal consideration of S$1.00 for the purpose of the Trust. Pursuant to the Articles of Association of HLGE, the 24,189,170 of Series B RCPS held by the Trustee were converted into 24,189,170 new ordinary shares in the capital of HLGE on January 16, 2012, and the new ordinary shares which rank *pari passu* in all respects with the existing issued ordinary shares, were held by the Trustee under the Trust. As disclosed in Note 3.1, the Trust, being a special purpose entity, has been consolidated.

On April 4, 2012, the Group converted 13,957,233 of Series A redeemable convertible preference shares ("Series A RCPS") into ordinary shares in the capital of HLGE. As of December 31, 2012, the Group's interest in HLGE increased from 49.4% to 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.

On March 2, 2015, HLGE proposed to undertake a share consolidation exercise to consolidate every 10 ordinary shares in the capital of HLGE into 1 ordinary share. The share consolidation exercise was completed on May 14, 2015. Upon completion of the share consolidation exercise, the Company held 47,107,707 ordinary shares of HLGE.

As of December 31, 2015, the Group's shareholding interest in HLGE remains at 50.2%.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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 for derivative financial instruments and held for trading investment that have been measured at fair value. The consolidated financial statements are presented in Renminbi ("Rmb") and all values are rounded to the nearest thousand ("Rmb'000") except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group") as at December 31, 2015. 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 result 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.2 Basis of consolidation (cont'd)

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent 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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised 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 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.

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 at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized either in either profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

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 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 this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

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 as "Share of profit of associates" and "Share of losses of joint ventures" 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 statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

All other assets are classified as non-current.

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 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 held for trading investments and derivatives, at fair value at each balance sheet date. Fair value related disclosures for financial instruments that are measured at fair value are summarized in the following notes:

- Quoted equity shares Note 34
- Foreign exchange forward contract Note 34

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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
- 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 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

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).

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 exchange rates prevailing at the dates of the transactions. 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 recognized in profit or loss.

For the US Dollar convenience translation amounts included in the accompanying consolidated financial statements, the Rmb equivalent amounts have been translated into US Dollar at the rate of Rmb 6.5452 = US$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on 29 February 2016. No representation is made that the Rmb amounts could have been, or could be, converted into US Dollar at that rate or at any other rate prevailing on February 29, 2016 or any other date.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

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

Rendering of services

Revenue from rendering of 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.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate ("EIR"). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in "Other operating income" in the statement of profit or loss.

Rental income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Dividends

Dividend income is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(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.

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Sales tax

Revenues, 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) Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution with be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale or for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(i) Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (cont'd)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

(j) Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent 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.

(k) Property, plant and equipment

Property, plant and equipment is 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 recognizes 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. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Freehold land has an unlimited useful life and therefore is not depreciated. Asset under construction included in 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 land, buildings and improvements	:	Shorter of 15 to 50 years or lease term
Plant and machinery	:	3 to 20 years (Note 3.2)
Office furniture, fittings and equipment	:	3 to 20 years
Motor and transport vehicles	:	3.5 to 15 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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 derecognition 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.

(l) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(l) Investment properties (cont'd)

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and impairment losses. Depreciation is recognised 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 derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

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

(m) Research and development costs

Research costs are expensed as incurred. The Group received research and development subsidies of Rmb 15,798 and Rmb 37,301 (US$5,698) for the years ended December 31, 2014 and 2015 respectively.

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

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, and are recorded in cost of sales. During the period of development, the asset is tested for impairment annually. As of December 31, 2013, 2014 and 2015, capitalized development expenditures are not amortized because the intangible asset has not been completed and is not available for use or sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(n) 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 financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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.

The Group's financial assets include cash and bank balances, bank deposits, trade and other receivables, loans and other receivables, quoted financial instruments and derivative financial instruments.

Subsequent measurement

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

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(n) 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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as other operating expenses (negative net changes in fair value) or other operating income (positive net changes in fair value) in the statement of profit or loss.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has designated its remaining 7.7% shareholding interest in TCL as financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification to loans and receivables and available-for-sale depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. 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 in "Other operating income" in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. 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 income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss as finance costs. The Group did not have any held-to-maturity investments during the years ended December 31, 2014 and 2015.

Available-for-sale ("AFS") financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

The Group does not have AFS financial assets in 2014 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

De-recognition

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 have 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 the Group's 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.

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets (cont'd)

Financial assets carried at amortized cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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

AFS financial assets

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

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss – is removed from OCI and recognized in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets (cont'd)

AFS financial assets (cont'd)

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss.

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

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, and derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

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 IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit and loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings 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 in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, please refer to Note 16(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

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.

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. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

The Group does not apply hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(o) Inventories

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

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.

(p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs 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.

Impairment losses, including impairment on inventories, are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill and intangible assets with indefinite useful lives, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

Goodwill

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

Intangible assets with definite useful lives are tested for impairment annually as at December 31 either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(q) Cash and cash equivalents

Cash and bank balances comprise cash at banks and on hand and short-term deposits with insignificant risk of changes in value.

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

(r) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Prepaid operating lease

Prepaid operating lease represents payments made to the PRC land bureau for land use rights, which are charged to expense on a straight-line basis over the respective periods of the rights which are in the range of 15 to 50 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(r) Leases (cont'd)

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

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

Operating lease payments are recognized as an operating expense in the statement of profit or loss 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. 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. Contingent rents are recognized as revenue in the period in which they are earned.

(s) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(t) 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 recognised as a finance cost.

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 12 months to 36 months) or mileage (generally 50,000 kilometers to 300,000 kilometers), whichever is the lower. For other applications engines, warranties extend for a duration of generally 3 to 24 months. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. In previous years, warranty claims have typically not been higher than the relevant provisions made in our consolidated statement of financial position. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

(u) Pensions and other post-employment benefits

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

(v) 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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

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

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.

That cost is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (Note 26). 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 statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense (Note 26).

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 vesting irrespective of whether or not 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 had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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 10).

(w) Development properties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.3 Summary of significant accounting policies (cont'd)

(x) Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is controlled or jointly controlled by a person identified in (a).

(vi) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(y) Segment reporting

For management purposes, the Group is organized into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

2.4 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and amendments to IFRS effective as of January 1, 2015:

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements *2010-2012 Cycle*

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after July 1, 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 *Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions for the options granted under its Equity Incentive Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

New and amended standards and interpretations (cont'd)

Annual Improvements *2010-2012 Cycle* (cont'd)

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). There is no contingent consideration arising from Group's business combination activities, thus, this amendment did not impact with the Group's accounting policy.

IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 31 in this year's financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Group as the Group did not perform any revaluation.

IAS 24 *Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

New and amended standards and interpretations (cont'd)

Annual Improvements *2011-2013 Cycle*

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Company is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 *Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment did not impact the accounting policy of the Group.

2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. During 2015, the Group performed preliminary assessment of IFRS 15. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The assessment activities involved reviewing key contractual terms with Group's customers. The assessment is currently ongoing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

Amendments to IAS 1 *Disclosure Initiative* (cont'd)

- That entities have flexibility as to the order in which they present the notes to financial statements

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: *Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

IFRS 16 *Leases*

IFRS 16 requires lessees to recognize for most leases, a liability to pay rentals with a corresponding asset, and recognize interest expense and depreciation separately. The new standard is effective for annual periods beginning on or after January 1, 2019. The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities.

Annual Improvements *2012-2014* Cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

IFRS 7 *Financial Instruments: Disclosures*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any 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, and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.1 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:

Operating lease commitments – Group as lessor

The Group has leased out some of its assets, including surplus office and manufacturing buildings. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Cash and cash equivalents

The Group's cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. To determine whether a fixed deposit meets the definition of cash and cash equivalents, the Group considers factors such as its intention to hold the fixed deposit to meet short-term cash requirements and maturity and terms of such deposit. The carrying amount of cash and cash equivalents as at December 31, 2014 and 2015 are disclosed in Note 22.

Consolidation of a special purpose entity

As disclosed in Note 1.4, HLGE established the Trust with the Trustee pursuant to the Trust Deed to facilitate the implementation of the HLGE 2006 Scheme.

Pursuant to the terms of the Trust Deed, the Trustee will, *inter alia*, acquire and hold existing shares in the capital of HLGE (collectively, the "Trust Shares") for the benefit of participants who are employees of HLGE and/or its subsidiaries and who have been granted share options under the HLGE 2006 Scheme (excluding directors of HLGE and directors and employees of the HLGE's parent company and its subsidiaries) (the "Beneficiaries") and transfer such Trust Shares to the Beneficiaries upon the exercise of their share options under the HLGE 2006 Scheme.

HLGE will be entitled, from time to time, during the period commencing from the date of the Trust Deed and ending upon the termination of the Trust, to appoint a new trustee in substitution of the existing Trustee. HLGE is entitled to the benefit of any remaining funds, investments or assets which are placed under the control of the Trustee upon termination of the Trust. Based on the foregoing provisions, HLGE therefore consolidates the Trust as part of HLGE in its separate and consolidated financial statements. The Trust Shares are not regarded as treasury shares pursuant to the Singapore Companies Act, Chapter 50 and the Trustee has the power, *inter alia*, to vote or abstain from voting in respect of the Trust Shares at any general meeting of HLGE in its absolute discretion and to waive its right to receive dividends in respect of the Trust Shares as it deems fit. However, the Trust Shares are accounted for as treasury shares by HLGE as they are issued by HLGE and held by the Trust, which is considered as part of HLGE in accordance with the relevant IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.1 Judgments (cont'd)

Consolidation of a special purpose entity (cont'd)

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. Therefore, HLGE is consolidated in the Group's consolidated financial statements.

Consolidation of a structured entity

As discussed in Note 1.2(a) above, on July 1, 2014, pursuant to the Equity Transfer Agreement entered into between Yuchai and an independent third party (the "Purchaser"), Yuchai disposed its equity interest in Jining Yuchai amounting to Rmb 105 million (representing 70% of Jining Yuchai's total share capital), for a consideration of Rmb 1.00 dollar. Geely also entered into an agreement to dispose their entire stake in Jining Yuchai to the Purchaser on June 18, 2014. In connection with the equity transfer transaction, Yuchai and the Purchaser entered into a Service Management Agreement on October 13, 2014. In accordance with the terms of the Service Management Agreement, the Purchaser appoints Yuchai to direct Jining Yuchai's operating activities, manage Jining Yuchai's assets and employees, and the Purchaser, in return, will pay Yuchai Rmb 240 per annum for the management services rendered. On the same day, Yuchai, Yulin Hotel, the Purchaser and Jining Yuchai also entered into a Loan Agreement. In this Loan Agreement, Yuchai and Yulin Hotel agreed to extend a loan facility of Rmb 70 million to Jining for tenure of two years from the date of the agreement, solely for Jining's daily operation purpose. In addition, Yuchai has the right to appoint the sole director and legal representative of Jining Yuchai.

Based on the contractual terms, the Group assessed that the voting rights in Jining Yuchai are not the dominant factor in deciding who controls the entity. Also, it is assessed that there is insufficient equity financing to allow Jining Yuchai to finance its activities without the non-equity financial support from Yuchai. Therefore, the Group concluded that Jining Yuchai is a structured entity under IFRS 10 and, through the contractual arrangements, has the power to exercise effective control and is able to direct the activities of Jining Yuchai that most significantly affect its economic performance, and has the exposure or rights to receive benefits from Jining Yuchai from its involvement. Therefore, Jining Yuchai continues to be consolidated in the Group's consolidated financial statements.

De-recognition of bills receivable

The Group sell bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the transfer of risks and rewards of the bills receivable when discounted, the management believes that the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are de-recognized, 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 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.1 Judgments (cont'd)

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 together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2014 and 2015 are Rmb 388,282 and Rmb 341,728 (US$52,211) respectively.

The Group has unrecognized tax loss carried forward amounting to Rmb 674,810 and Rmb 664,393 (US$101,508) as of December 31, 2014 and 2015 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by Rmb 141,639 (US$21,640) for year ended December 31, 2015 (2014: Rmb 143,746).

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 eight to fifteen 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 recognised 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 6, Note 14 and Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.2 Estimates and assumptions (cont'd)

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26 to the financial statements.

Useful lives of plant and machinery

The costs of plant and machinery of the Group are depreciated on a straight-line basis over the useful lives of the plant and machinery. Management estimates the useful lives of the plant and machinery to be within 3 to 20 years (Note 2.3(k)). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery as of December 31, 2015 is disclosed in Note 11. A decrease of 5% in the expected useful life of the plant and machinery from management's estimate would decrease the Group's profit before tax by approximately Rmb 18,209 (US$2,782) (2014: Rmb 17,040).

Impairment of property, plant and equipment

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

Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less cost of disposal, and are no longer depreciated. Further details of the key assumptions applied in the impairment assessment of property, plant and equipment are disclosed in Note 11 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.2 Estimates and assumptions (cont'd)

Allowance for doubtful accounts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2014 and 2015 were Rmb 23,968 and Rmb 55,950 (US$8,548) respectively.

Inventory provision

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2014 and 2015 were Rmb 108,353 and Rmb 132,306 (US$20,214) respectively.

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(t). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2014 and 2015 were Rmb 298,552 and Rmb 233,577 (US$35,687) respectively.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Please refer to Note 34 for details of fair value measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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

3.2 Estimates and assumptions (cont'd)

Estimation of fair value in business acquisitions

The fair value of assets and liabilities identified during acquisition is based on management's assessment of fair values. No contingent liability or material intangible assets were identified and recognized. Fair value is the estimated amount for which these assets and liabilities could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction. The process of estimating fair value involves significant judgment and estimation. The fair values of the acquired assets are disclosed in Note 4 to the financial statements.

Development costs

The Group capitalizes development costs in accordance with the accounting policy. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. At December 31, 2015, the carrying amount of capitalized development costs was Rmb 81,826 (US$12,502) (2014: Rmb 108,526).

Withholding tax

The China's Unified Enterprise Income Tax Law ("CIT law") also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of December 31, 2014 and 2015 are Rmb 133,788 and Rmb 113,805 (US$17,388) respectively.

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

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(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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	
		31.12.2014	31.12.2015
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited (i)	People's Republic of China	74.2	76.4
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Xiamen Yuchai Diesel Engines Co., Ltd (ii)	People's Republic of China	76.4	–
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited (iii)	People's Republic of China	–	–
Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (iv)	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

Note:

(i) On October 31, 2015, Yuchai acquired the remaining 2.86% of equity interest in YAMC. As a result, YAMC became a wholly owned subsidiary of Yuchai.

(ii) On September 21, 2015, Yuchai disposed its 100% equity interest in Xiamen Yuchai Diesel Engines Co., Ltd.

(iii) On September 28, 2014, Yuchai disposed its 70% equity interest in Jining Yuchai. Subsequently, through contractual arrangements, Yuchai obtained 100% control in Jining Yuchai. For details, please refer to Note 1.2(a).

(iv) On September 4, 2014, Yuchai acquired the remaining 49% of equity interest in Yuchai Remanufacturing. Upon the completion of the equity transfer transaction, Yuchai became the legal and beneficial owner of 100% equity interest in Yuchai Remanufacturing. For details, please refer to Note 1.2(b).

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(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

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

	31.12.2013	31.12.2014	31.12.2015
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%
YMMC	28.2%	28.2%	28.2%

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Accumulated balances of material NCI				
Yuchai		1,931,591	1,965,207	300,252
YMMC		120,567	153,865	23,508
Profit allocated to material NCI				
Yuchai	237,658	248,789	129,088	19,723
YMMC	28,958	31,984	36,349	5,554
Dividends paid to material NCI				
Yuchai	72,526	105,991	100,412	15,341
YMMC	218	56,340	–	1,237

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

	31.12.2013	
	Yuchai	YMMC
	Rmb'000	Rmb'000
Summarized statement of comprehensive income		
Revenue	15,870,380	1,546,612
Profit for the year representing total comprehensive income	1,007,454	102,797
Attributable to NCI	237,658	28,958
Summarized statement of cash flows		
Operating	621,561	(13,376)
Investing	(555,722)	(211,219)
Financing	(583,757)	(4,218)
Net decrease in cash and cash equivalents	(517,918)	(228,813)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

	31.12.2014	
	Yuchai	**YMMC**
	Rmb'000	**Rmb'000**
Summarized statement of financial position		
Current assets	12,413,177	968,082
Non-current assets, excluding goodwill	5,343,418	181,716
Goodwill	212,636	–
Current liabilities	(7,938,152)	(693,904)
Non-current liabilities	(1,449,541)	(3,280)
Net assets	8,581,538	452,614
Less: Non-controlling interests of the subsidiaries	(180,724)	(24,616)
Total equity	8,400,814	427,998
Attributable to NCI	1,931,591	120,567
Summarized statement of comprehensive income		
Revenue	16,387,356	1,576,578
Profit for the year representing total comprehensive income	1,054,637	113,541
Attributable to NCI	248,789	31,984
Summarized statement of cash flows		
Operating	600,451	133,580
Investing	(603,771)	(55,697)
Financing	(480,896)	(100,000)
Net decrease in cash and cash equivalents	(484,216)	(22,117)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

	31.12.2015			
	Yuchai		YMMC	
	Rmb'000	US$'000	Rmb'000	US$'000
Summarized statement of financial position				
Current assets	12,510,033	1,911,329	1,115,393	170,414
Non-current assets, excluding goodwill	5,174,416	790,567	245,204	37,464
Goodwill	212,636	32,487	–	–
Current liabilities	(8,717,191)	(1,331,845)	(802,877)	(122,667)
Non-current liabilities	(466,478)	(71,270)	(771)	(118)
Net assets	8,713,416	1,331,268	556,949	85,093
Less: Non-controlling interests of the subsidiaries	(170,103)	(25,989)	(10,746)	(1,642)
Total equity	8,543,313	1,305,279	546,203	83,451
Attributable to NCI	1,965,207	300,252	153,865	23,508
Summarized statement of comprehensive income				
Revenue	13,671,931	2,088,848	1,577,227	240,975
Profit for the year representing total comprehensive income	547,216	83,606	129,033	19,714
Attributable to NCI	129,088	19,723	36,349	5,554
Summarized statement of cash flows				
Operating	1,742,989	266,301	81,386	12,434
Investing	(33,515)	(5,121)	(57,777)	(8,827)
Financing	(659,691)	(100,790)	–	–
Net decrease in cash or cash equivalents	1,049,783	160,390	23,609	3,607

The ability of certain subsidiaries of the Group to transfer funds to the Group in the form of cash dividend or to repay advances made by the Group is subject to the approval of the relevant authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries

(i) On May 27, 2014, Augustland Sdn Bhd, the wholly-owned subsidiary of HLGE, entered into a sale and purchase agreement to purchase the remaining 55% issued ordinary shares and preference shares in the capital of Augustland Hotel Sdn Bhd ("AHSB"), which owns a hotel in Malaysia, from Amcorp Leisure Holdings Sdn and Hotel Equatorial (M) Sdn Bhd. Following the completion of the acquisition on July 8, 2014, AHSB becomes a wholly-owned subsidiary of HLGE.

The acquisition allows HLGE to expand and strengthen its existing core business of hospitality operations. The control of the acquiree was obtained through the acquisition of 55% equity interest from its joint venture partner.

(ii) On September 4, 2014, Yuchai, pursuant to an Equity Transfer Agreement entered into with Caterpillar, obtained 49% of equity interest in Yuchai Remanufacturing from Caterpillar. Upon the completion of the equity transfer transaction, Yuchai became legal and beneficial owner of 100% of the equity interest in Yuchai Remanufacturing.

The acquisition enables Yuchai to have full ownership and control of Yuchai Remanufacturing which will bring significant advantages from the integration of the remanufacturing business with Yuchai's manufacturing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

Assets acquired and liabilities assumed

Upon acquisition of the remaining equity interest in the above entities, the Group re-measured the previously held equity interests at fair value on acquisition date, with the resulting gain or loss recognized in the statement of profit or loss.

The fair value of the identifiable assets and liabilities at the acquisition dates were:

	AHSB	Yuchai Remanufacturing	Total
	Rmb'000	Rmb'000	Rmb'000
Assets			
Property, plant and equipment	106,738	92,923	199,661
Prepaid operating lease	–	28,609	28,609
Inventories	416	16,958	17,374
Trade and other receivables	2,485	11,999	14,484
Cash and cash equivalents	10,993	3,794	14,787
	120,632	154,283	274,915
Liabilities			
Trade and other payables	(23,852)	(19,179)	(43,031)
Interest-bearing loans and borrowings	(40,841)	(53,812)	(94,653)
Deferred grant	–	(6,300)	(6,300)
Other liabilities	(253)	–	(253)
Preference shares	(9,068)	–	(9,068)
	(74,014)	(79,291)	(153,305)
Total identifiable net assets at fair value	46,618	74,992	121,610
Less: Fair value of equity interest in subsidiaries held by the Group immediately before the acquisitions	(21,266)	(38,247)	(59,513)
	25,352	36,745	62,097
Less: Consideration transferred excluding preference shares			
Cash consideration	31,477	*	31,477
Less: Preference shares	(9,068)	–	(9,068)
	22,409	–	22,409
Negative goodwill recognized in the statement of profit or loss	2,943	36,745	39,688

* Cash consideration is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries (cont'd)

Trade and other receivables acquired

The carrying amounts of the acquired receivables reasonably approximate their fair value. At the acquisition date, it is expected that the full contractual amount of the trade and other receivables, expect for Rmb 312 (Note 20) of allowance for doubtful accounts that has already been provided, can be collected.

The effect of the acquisitions of subsidiaries on cash flows is as follows:

	AHSB	Yuchai Remanufacturing	Total
	Rmb'000	Rmb'000	Rmb'000
Consideration settled in cash	31,477	–	31,477
Less: Cash and cash equivalents of subsidiaries acquired	(10,993)	(3,794)	(14,787)
Net cash outflow / (inflow) on acquisitions	20,484	(3,794)	16,690

Gains on re-measuring previously held equity interests in subsidiaries to fair value at acquisition dates are as follows:

	AHSB	Yuchai Remanufacturing	Total
	Rmb'000	Rmb'000	Rmb'000
Fair value of initial equity interest	21,266	38,247	59,513
Share of carrying amount	(3,423)	(10,143)	(13,566)
Transfer of reserves on initial equity interest in joint venture on acquisition	469	–	469
Share of carrying amount immediately before acquisitions	(2,954)	(10,143)	(13,097)
Fair value gain on initial equity interest	18,312	28,104	46,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries (cont'd)

Gain on deemed settlement of pre-existing contractual relationship

A gain of Rmb 9,088 related to deemed settlement of pre-existing contractual relationship was recognized in the "Gains arising from acquisitions" in the Group's statement of profit or loss for the year ended December 31, 2014.

Gains arising from acquisition of subsidiaries are summarized as follows:

	AHSB	Yuchai Remanufacturing	Total
	Rmb'000	Rmb'000	Rmb'000
Negative goodwill	2,943	36,745	39,688
Fair value gain on existing interests	18,312	28,104	46,416
Gain on de-recognition of liabilities	9,088	–	9,088
Gains arising from acquisitions	30,343	64,849	95,192

The gains arising from acquisition relating to AHSB of Rmb 30,343 arose from the acquisition of the remaining 55% stake from Amcorp Leisure Holdings. The consideration was arrived at on a willing-buyer and willing-seller basis taking into considerations of the valuations commissioned by the seller and buyer, respectively. The Group believes that it is part of the business rationalization plan of the seller to reduce its involvement in Cameron Highlands, Malaysia as a new hotel is being built at Cameron Highlands.

The gains arising from acquisition relating to Yuchai Remanufacturing of Rmb 64,849 arose from acquisition of the remaining 49% stake from Caterpillar (China) Investment Co. Ltd. The consideration was arrived at on a willing-buyer and willing-seller basis. The Group believes that it is part of the business rationalization plan of the seller to reduce its joint venture activities in the PRC.

Impact of the acquisition on profit or loss

From the acquisition date, AHSB has contributed Rmb 21,247 of revenue and gain of Rmb 4,181 to profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue would have been Rmb 16,455,581 and profit before tax for the Group would have been Rmb 1,202,984.

From the acquisition date, Yuchai Remanufacturing has contributed Rmb 12,069 of revenue and loss of Rmb 14,305 to profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue would have been Rmb 16,461,480 and profit before tax for the Group would have been Rmb 1,189,468.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries (cont'd)

Acquisition of additional interest in HLGE

In January and March 2014, Grace Star Services Ltd., an indirect wholly-owned subsidiary of the Company, has purchased in the open market an aggregate of 465,000 ordinary shares in the capital of HLGE, representing 0.05% of the total number of issued ordinary shares of HLGE, for an aggregate gross cash consideration of S$18 (the "Acquisition"). Following the Acquisition, the Company holds in aggregate 471,077,072 ordinary shares in the capital of HLGE, representing approximately 50.17% shareholding in HLGE, based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust.

Disposal of a subsidiary

On September 21, 2015, the Group disposed of one of its wholly-owned subsidiaries, Xiamen Yuchai Diesel Engines Co., Ltd. ("Xiamen Yuchai") and the disposal consideration was settled in cash.

The value of assets and liabilities of the disposal recorded in the consolidated financial statements and the cash flow effect of the disposals were:

	31.12.2015	31.12.2015
	Rmb'000	US$'000
Property, plant and equipment (Note 11)	66,597	10,175
Land use rights (Note 13)	17,661	2,698
Inventories	6,354	971
Trade receivables	110,681	16,911
Other receivables, deposits and prepayments	970	148
Deferred taxation	244	37
Cash and bank balances	18,797	2,872
	221,304	33,812
Payables and accruals	(17,161)	(2,622)
Provision for taxation	(996)	(152)
Carrying value of net assets	203,147	31,038
Loss on disposal of a subsidiary (Note 8.2(b))	(13,647)	(2,085)
Total consideration	189,500	28,953
Cash and cash equivalents of the subsidiary	(18,797)	(2,872)
Net cash inflow on disposal of the subsidiary	170,703	26,081

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

5. Investment in associates

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

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Unquoted equity shares, at cost	4,642	4,642	709
Share of post-acquisition reserves			
At January 1	(2,412)	(1,467)	(224)
Share of results, net of tax	956	245	37
Share of foreign currency translation	(11)	(41)	(6)
At December 31	(1,467)	(1,263)	(193)
Investment in associates	3,175	3,379	516

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2014	Group's effective equity interest 31.12.2015
			%	%
Held by subsidiaries				
Sinjori Sdn. Bhd. [(i)]	Property investment and development	Malaysia	14.0	14.0
Guangxi Yuchai Quan Xing Machinery Co., Ltd. ("Quan Xing") [(ii)]	Manufacture spare part and sales of auto spare part, diesel engine & spare part, metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	People's Republic of China	14.8	15.3
Guangxi Yulin Yuchai Property Management Co., Ltd. ("Property Management") [(iii)]	Property management	People's Republic of China	22.3	22.9

Note:

(i) The Group has significant influence in this entity through HLGE who holds effective equity interests of 28% interest in this entity.

(ii) The Group has significant influence in this entity through YAMC who holds direct equity interests of 20% interest in this entity.

(iii) The Group has significant influence in this entity through YAMC who holds direct equity interests of 30% interest in this entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

5. Investment in associates (cont'd)

The summarized financial information of the associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	31.12.2013	
	Quan Xing	**Total**
	Rmb'000	**Rmb'000**
Revenue	74,029	74,029
Profit for the year representing total comprehensive income	751	751
Proportion of the Group's ownership	20%	
Group's share of profit of significant associates	150	150
Group's share of loss of other associates, representing the Group's share of total comprehensive loss of other associates		9
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year		159

	31.12.2014		
	Quan Xing	**Property Management**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**
Current assets	30,487	8,528	39,015
Non-current assets	220	1,215	1,435
Current liabilities	(23,537)	(5,051)	(28,588)
Equity	7,170	4,692	11,862
Proportion of the Group's ownership	20%	30%	
Carrying amount of significant associate	1,434	1,408	2,842
Carrying amount of other associates			333
Carrying amount of investment in associates			3,175
Revenue	63,113	35,976	99,089
Profit for the year, representing total comprehensive income	442	2,908	3,350
Group's share of profit of significant associate	88	872	960
Group's share of profit of other associates, representing the Group's share of total comprehensive income of other associates			(4)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

5. Investment in associates (cont'd)

	31.12.2015			
	Quan Xing	**Property Management**	**Total**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**	**US$'000**
Current assets	30,219	12,635	42,854	6,547
Non-current assets	294	1,648	1,942	297
Current liabilities	(22,973)	(9,003)	(31,976)	(4,885)
Equity	7,540	5,280	12,820	1,959
Proportion of the Group's ownership	20%	30%		
Carrying amount of significant associates	1,508	1,584	3,092	472
Carrying amount of other associates			287	44
Carrying amount of investment in associates			3,379	516
Revenue	55,305	34,581	89,886	13,733
Profit for the year, representing total comprehensive income	368	587	955	146
Group's share of profit of significant associates	74	176	250	38
Group's share of profit of other associates, representing the Group's share of total comprehensive income of other associates			(5)	(1)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			245	37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures

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

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Unquoted equity shares, at cost			
At January 1	554,664	451,758	69,021
Addition	462	2,591	396
Acquisition as subsidiaries	(103,368)	–	–
Dissolved	–	(1,552)	(237)
At December 31	451,758	452,797	69,180
Share of post-acquisition reserves and impairment losses			
At January 1	(239,542)	(179,542)	(27,431)
Share of results, net of tax [(i)]	(30,711)	(2,936)	(448)
Dividend received	(258)	(1,190)	(182)
Others	912	698	106
Translation adjustment	(214)	(195)	(30)
Acquisition as subsidiaries	90,271	–	–
Losses in dilution in shareholding interest	–	(2,848)	(435)
At December 31	(179,542)	(186,013)	(28,420)
Carrying amount of the investment	272,216	266,784	40,760

Note:

(i) Share of results, net of tax is composed of:

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Share of joint venture losses	(44,138)	(27,907)	(22,064)	(3,371)
Impairment of investment in joint ventures	(32,303)	–	21,932	3,351
Fair value adjustments arising from purchase price allocation	(2,804)	(2,804)	(2,804)	(428)
Share of results, net of tax	(79,245)	(30,711)	(2,936)	(448)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Percentage of interest held	
			31.12.2014	31.12.2015
			%	%
Held by subsidiaries				
Copthorne Hotel Qingdao Co., Ltd. ("Copthorne Qingdao")	Owns and operates a hotel in Qingdao, PRC	People's Republic of China	60	60
Shanghai Equatorial Hotel Management Co., Ltd. ("SEHM") (i)	Hotel and property management	People's Republic of China	49	–
HL Heritage Sdn. Bhd. ("HL Heritage") (ii)	Property development and property investment holdings	Malaysia	60	60
Shanghai Hengshan Equatorial Hotel Management Co., Ltd. ("SHEHM") (iii)	Hotel and property management	People's Republic of China	49	49
Y & C Engine Co., Ltd.	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	45	45
Guangxi Yineng IOT Science & Technology Co., Ltd. ("Guangxi Yineng") (iv)	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	40	20
YC Europe Co., Limited. ("YC Europe") (v)	Sales and after-sales service for diesel engines, gas engines and related components and parts	Hong Kong	–	35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

Note:

(i) On May 8, 2015, SEHM was dissolved under members' voluntary liquidation.

(ii) HL Heritage was incorporated on June 12, 2013 with an initial capital of RM2.00. In 2014, HLGE increased its interest in HL Heritage to 60% pursuant to the joint venture agreement entered into with Heritage Hallmark Sdn Bhd ("Heritage Hallmark") on November 2, 2012. HLGE together with Heritage Hallmark have joint control over HL Heritage.

(iii) SHEHM was incorporated on January 10, 2014 in the PRC with a registered capital of Rmb 3.5 million. SHEHM is a joint venture company with 49% shareholding interest held by Equatorial Hotel Management Pte. Ltd. ("EHM"), a wholly-owned subsidiary of HLGE, and the remaining 51% shareholding interest held by Shanghai Hengshan (Group) Corporation (China) ("Shanghai Hengshan"). EHM together with Shanghai Hengshan have joint control over SHEHM.

In 2015, both EHM and Shanghai Hengshan invested an additional share capital of Rmb 1.4 million into SHEHM. The equity interests of both parties remain unchanged.

(iv) In July 2015, Shareholders' Resolution of Guangxi Yineng approved the further capital injection from the other joint venture partner. As a result, Yuchai's equity interest in Guangxi Yineng was diluted from 40% to 20%. Yuchai retains joint control of Guangxi Yineng.

(v) On April 9, 2015, Yuchai had entered into an agreement to form a new joint venture YC Europe in Hong Kong. YC Europe has a wholly owned subsidiary, YC Europe (Germany) GmbH base in Germany to market off-road engines (excluding marine engine) in Europe. During 2015, Yuchai had invested Rmb 1.2 million into the joint venture.

The Group assess impairment of investments in affiliates 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 typically perform evaluation of the value of its investment using a discounted cash flows projection. The projection will be performed using historical trends as a reference and certain assumptions to project the future streams of cash flows.

In 2013, the Group performed impairment evaluation of its investments. As a result, the Group recognized impairment losses on investments in Yuchai Remanufacturing Services (Suzhou) Co., Ltd.("Yuchai Remanufacturing") amounting to Rmb 10.4 million and Copthorne Qingdao, an investment of HLGE, amounting to Rmb 21.9 million. The impairment in Copthorne Qingdao was made based on third party valuation and the Group considered a discount to the fair value of the joint venture due to restrictive clauses in the joint venture agreement. In 2014, the Group performed impairment evaluation of its investments and no further impairment was required. In the same year, the Group acquired the remaining 49% equity interest in Yuchai Remanufacturing and it became a wholly owned subsidiary of the Group. Purchase price allocation exercise was performed based on third party valuation and the assets and liabilities of Yuchai Remanufacturing were stated based on its fair value on acquisition date. In 2015, the Group performed impairment evaluation of its investments in joint ventures. As a result, the Group reversed the earlier impairment of Rmb 21.9 million for Copthorne Qingdao. The reversal was made because the fair value less cost to sell estimated in the latest independent valuation report is higher than the carrying amount and the management had obtained the consent from its joint venture partner to sell the joint venture. Copthorne Qingdao is identified as part of the HLGE segment (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

The Group estimates the recoverable amounts of investment in Copthorne Qingdao based on its fair value less cost of disposal. The fair value is determined using recognised valuation technique, which is discounted cash flow method. The calculations require the use of key significant unobservable inputs (fair value level 3), which are occupancy rates, room rates, discount rates and gross margins of operating hotel. With regards to the valuation of the recoverable amount of Copthorne Qingdao, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the joint venture to materially exceed its recoverable amount.

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

The summarized financial information of the joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	31.12.2013			
	Y & C	**Yuchai Remanufacturing**	**Copthorne Qingdao**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**
Revenue	447,124	36,975	67,707	551,806
Depreciation and amortization	(23,813)	(8,143)	(12,341)	(44,297)
Interest expense	(15,626)	(6,301)	(7,473)	(29,400)
Loss for the year, representing total comprehensive loss	(35,829)	(49,890)	(8,829)	(94,548)
Proportion of the Group's ownership	45%	51%	60%	
Group's share of loss	(16,123)	(25,444)	(5,297)	
Impairment loss	–	(10,371)	(21,932)	
Depreciation arising from fair value adjustment during purchase price allocation	–	–	(2,804)	
Group's share of loss of significant joint ventures	(16,123)	(35,815)	(30,033)	(81,971)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive income of other joint ventures				2,726
Group's share of loss for the year, representing the Group's share of total comprehensive income for the year				(79,245)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

	31.12.2014		
	Y & C	**Copthorne Qingdao**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**
Non-current assets	623,846	328,006	951,852
Current assets			
- Cash and cash equivalents	67,105	9,864	76,969
- Others	237,074	2,262	239,336
Total assets	928,025	340,132	1,268,157
Non-current liabilities			
- Interest-bearing loans and borrowings	(90,000)	(140,414)	(230,414)
Current liabilities			
- Interest-bearing loans and borrowings	(20,000)	(1,576)	(21,576)
- Others	(426,265)	(16,825)	(443,090)
Total liabilities	(536,265)	(158,815)	(695,080)
Equity	391,760	181,317	573,077
Proportion of the Group's ownership	45%	60%	
Group's share of net assets	176,292	108,790	
Cumulative impairment loss	–	(21,932)	
Unrealized profit on transactions between the Group and the joint venture	(639)	–	
Carrying amount of significant joint ventures	175,653	86,858	262,511
Carrying amount of other joint ventures			9,705
Carrying amount of the investment in joint ventures			272,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

	31.12.2014			
	Y & C	**Yuchai Remanufacturing**	**Copthorne Qingdao**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**
Revenue	487,189	25,338	60,547	573,074
Depreciation and amortization	(24,146)	(4,866)	(12,092)	(41,104)
Interest expense	(26,642)	(3,434)	(9,321)	(39,397)
Loss for the year, representing total comprehensive loss	(12,726)	(24,321)	(13,123)	(50,170)
Proportion of the Group's ownership	45%	51%	60%	
Group's share of loss *	(5,727)	(12,404)	(7,874)	
Depreciation arising from fair value adjustment during purchase price allocation	–	–	(2,804)	
Group's share of loss of significant joint ventures	(5,727)	(12,404)	(10,678)	(28,809)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive income of other joint ventures				(1,902)
Group's share of loss for the year, representing the Group's share of total comprehensive income for the year				(30,711)

* Group's share of loss includes share of loss in Yuchai Remanufacturing from January 1, 2014 to September 3, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

	31.12.2015			
	Y & C	**Copthorne Qingdao**	**Total**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**	**US$'000**
Non-current assets	638,726	312,885	951,611	145,391
Current assets				
- Cash and cash equivalents	51,634	9,085	60,719	9,277
- Others	112,340	2,851	115,191	17,599
Total assets	802,700	324,821	1,127,521	172,267
Non-current liabilities				
- Interest-bearing loans and borrowings	(40,000)	–	(40,000)	(6,111)
- Others	(19,102)	–	(19,102)	(2,918)
Current liabilities				
- Interest-bearing loans and borrowings	(30,000)	(145,181)	(175,181)	(26,765)
- Others	(343,209)	(23,208)	(366,417)	(55,983)
Total liabilities	(432,311)	(168,389)	(600,700)	(91,777)
Equity	370,389	156,432	526,821	80,490
Proportion of the Group's ownership	45%	60%		
Group's share of net assets	166,675	93,859		
Cumulative impairment loss	–	(21,932)		
Reversal of cumulative impairment loss	–	21,932		
Unrealized profit on transactions between the Group and the joint venture	698	–		
Carrying amount of significant joint ventures	167,373	93,859	261,232	39,912
Carrying amount of other joint ventures			5,552	848
Carrying amount of the investment in joint ventures			266,784	40,760

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(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

	31.12.2015			
	Y & C	**Copthorne Qingdao**	**Total**	**Total**
	Rmb'000	**Rmb'000**	**Rmb'000**	**US$'000**
Revenue	356,697	50,971	407,668	62,285
Depreciation and amortization	(23,453)	(12,079)	(35,532)	(5,429)
Interest expense	(19,612)	(8,599)	(28,211)	(4,310)
Loss for the year, representing total comprehensive loss	(19,952)	(20,311)	(40,263)	(6,152)
Proportion of the Group's ownership	45%	60%		
Group's share of loss	(8,978)	(12,187)		
Depreciation arising from fair value adjustment during purchase price allocation	–	(2,804)		
Reversal of cumulative impairment loss	–	21,932		
Group's share of loss of significant joint ventures	(8,978)	6,941	(2,037)	(311)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive income of other joint ventures			(899)	(137)
Group's share of loss for the year, representing the Group's share of total comprehensive income for the year			(2,936)	(448)

Note:

As of December 31, 2015, the Group's share of joint ventures' capital commitment that are contracted but not paid for and joint ventures' contingent liabilities were Rmb 37,973 (US$5,802) (2014: Rmb 37,973) and Rmb 112,072 (US$17,123) (2014: Rmb 110,908) respectively.

According to Qingdao Municipal Government's regulation, all hotels in Qingdao, the People's Republic of China, are imposed for tourism development levy and hotel augmentation levy which are equivalent to 1% of total revenue and 3% of room revenue respectively. According to releases made by the Qingdao Local Taxation Bureau, the tourism development levy and the hotel augmentation levy were withdrawn effective from January 1, 2009 and September 1, 2010 respectively. As at December 31, 2015, the estimated tourism development levy and hotel augmentation levy payable by the Group's joint venture in Qingdao were Rmb 3,793 (US$580) (2014: Rmb 3,754) and Rmb 9,197 (US$1,405) (2014: Rmb 9,106) respectively. The joint venture, together with other hotel owners in Qingdao is currently negotiating with the Qingdao Municipal Government to waive such levies. The joint venture is of the view that the authority is unlikely to collect such levies. Hence, the above levies have not been provided in the accounts of the joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

6. Investment in joint ventures (cont'd)

Note: (cont'd)

As of December 31, 2015, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totalled Rmb 94,188 (US$14,390) (2014: Rmb 79,327).

As of December 31, 2015, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were Rmb 4,894 (US$748) (2014: Rmb 18,721).

The ability of certain joint ventures of the Group to transfer funds to the Group in the form of cash dividend or to repay advances made by the Group is subject to the approval of the lenders and relevant authorities.

7. Revenue

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Sale of goods	15,809,894	16,355,854	13,639,013	2,083,819
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	85,164	78,815	94,053	14,370
Revenue from sale of development properties	6,758	865	–	–
Rental income	539	608	371	57
	92,461	80,288	94,424	14,427
Revenue	15,902,355	16,436,142	13,733,437	2,098,246

8.1 Depreciation and amortization, shipping and handling expenses

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

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Cost of sales	281,718	299,789	319,962	48,885
Research and development expenses	32,757	47,169	58,204	8,893
Selling, general and administrative expenses	74,464	84,298	91,269	13,944
	388,939	431,256	469,435	71,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

8.1 Depreciation and amortization, shipping and handling expenses (cont'd)

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

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Selling, general and administrative expenses	221,103	208,439	172,865	26,411

8.2 (a) Other operating income

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Interest income	78,939	45,824	41,314	6,312
Dividend income from held for trading investment	1,009	989	–	–
Gain on disposal of prepaid operating leases	11,437	194	2,511	384
Gain on disposal of held for trading investment	3,484	–	–	–
Gain on disposal of assets classified as held for sale	7,292	–	–	–
Gain on liquidation of joint venture	–	–	348	53
Government grant income	50,978	26,151	31,205	4,767
Fair value gain on foreign exchange forward contract (Note 19)	12,198	–	15,506	2,369
Write off of trade and other payables	–	42,437	9	1
Written back of impairment loss on development properties	–	–	2,976	455
Bad debt recovered	–	–	4,257	651
Others, net	14,550	6,306	8,805	1,345
	179,887	121,901	106,931	16,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

8.2 (b) Other operating expenses

	31.12.2013 Rmb'000	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Loss on disposal of property, plant and equipment	(3,427)	(5,984)	(14,874)	(2,273)
Loss on disposal of subsidiary	(363)	–	(13,647)	(2,085)
Loss on dilution of equity interest in joint venture	–	–	(2,848)	(435)
Foreign exchange loss, net	(16,736)	(13,044)	(45,354)	(6,929)
Fair value loss on held for trading investment	(2,866)	(5,250)	(10,871)	(1,661)
Fair value loss on foreign exchange forward contract	–	(2,731)	–	–
Others, net	(143)	–	–	–
	(23,535)	(27,009)	(87,594)	(13,383)

8.3 Research and development costs

Research and development costs recognized as an expense in the statement of profit or loss amounted to Rmb 506,955 (US$77,454) (2014: Rmb 494,594; 2013: Rmb 468,612).

8.4 Finance costs

	31.12.2013 Rmb'000	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Interest expense for bank term loans	65,458	66,168	57,212	8,741
Interest expense for corporate bonds	60,143	49,452	54,116	8,268
Loss from de-recognition of bills receivable	58,738	36,011	1,651	252
Bank charges	4,266	5,029	3,364	514
Finance lease	–	10	8	1
Less:				
Borrowing costs capitalized	(27,394)	–	–	–
	161,211	156,670	116,351	17,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

8.5 Staff costs

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Wages and salaries	922,151	836,578	839,288	128,230
Contribution to defined contribution plans (i)	243,614	279,123	297,926	45,518
Executive bonuses	56,501	60,069	32,190	4,918
Staff welfare	67,972	84,123	82,293	12,573
Cost of share-based payment	–	5,360	10,275	1,570
Others	2,336	2,305	9,062	1,384
	1,292,574	1,267,558	1,271,034	194,193

Note:

(i) As stipulated by the regulations of the PRC, Yuchai and its subsidiaries participate in defined contribution retirement plans as legally mandated under applicable Chinese laws. All staffs are entitled to an annual pension equal to a fixed proportion of their final basic salary amount at their retirement date. For the years ended December 31, 2015, 2014 and 2013, Yuchai and its subsidiaries were required to make contributions to the retirement plan at a rate of 20.0% of the basic salary of their staff. Expenses incurred in connection with the plan were Rmb 293,516 (US$44,844) (2014: Rmb 275,019; 2013: Rmb 239,723).

9. Income tax expense

Income tax expense in the consolidated statement of profit or loss consists of:

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Current income tax				
Current income tax charge	234,064	158,420	104,584	15,979
Adjustments in respect of current income tax of previous year	684	(3,746)	(47)	(7)
Deferred tax				
Relating to origination and reversal of temporary differences	(12,601)	24,965	72,281	11,043
Income tax expense reported in the statement of profit or loss	222,147	179,639	176,818	27,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

9. Income tax expense (cont'd)

Income tax expense reported in the consolidated statement of profit or loss differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2013, 2014 and 2015 for the following reasons:

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Accounting profit before tax	1,162,119	1,201,385	686,139	104,831
Computed tax expense of 15%	174,318	180,208	102,921	15,725
Adjustments resulting from:				
Non-deductible expenses	17,296	11,310	9,815	1,500
Tax-exempt income	(1,528)	(14,474)	(5,574)	(852)
Utilization of deferred tax benefits previously not recognized	–	(12,408)	(2,001)	(306)
Deferred tax benefits not recognized	6,015	–	61,299	9,365
Tax credits for research and development expense	(18,010)	(27,024)	(27,087)	(4,138)
Tax rate differential	20,228	20,985	24,249	3,705
Under/(over) provision in respect of previous years current tax	684	(3,746)	(47)	(7)
Withholding tax expense	23,094	24,175	13,126	2,005
Others	50	613	117	18
Total	222,147	179,639	176,818	27,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

9. Income tax expense (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2014	31.12.2015	31.12.2015	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000	Rmb'000	Rmb'000	Rmb'000	US$'000
Deferred tax liabilities							
Accelerated tax depreciation	(42)	(10,894)	(1,665)	–	–	(10,852)	(1,658)
Unremitted earnings from overseas source income	(412)	(412)	(63)	–	–	–	–
Expenditure currently deferred for tax purpose	18	18	3	–	–	–	–
Derivatives not designated as hedges- foreign exchange forward contract	–	(2,326)	(355)	–	–	(2,326)	(355)
PRC withholding tax on dividend income [(i)]	(133,788)	(113,805)	(17,388)	(23,094)	(24,175)	(12,549)	(1,917)
	(134,224)	(127,419)	(19,468)	(23,094)	(24,175)	(25,727)	(3,930)
Deferred tax assets							
Accelerated accounting depreciation	11,472	11,881	1,815	998	2,614	409	62
Write down of inventories	29,497	25,630	3,916	(2,307)	700	(3,867)	(591)
Allowance for doubtful accounts	5,505	2,144	328	(1,049)	–	(3,361)	(513)
Accruals	241,043	258,296	39,463	44,840	(17,906)	17,253	2,636
Deferred income	79,124	34,892	5,331	(5,072)	(561)	(44,232)	(6,758)
Write down of intangible asset	15,000	–	–	–	15,000	(15,000)	(2,292)
Others	6,641	8,885	1,358	(1,715)	(637)	2,244	343
	388,282	341,728	52,211	35,695	(790)	(46,554)	(7,113)
				12,601	(24,965)	(72,281)	(11,043)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

9. Income tax expense (cont'd)

Deferred tax (cont'd)

Note:

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

	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
At January 1	(141,172)	(133,788)	(20,441)
Provision made to consolidated statement of profit or loss	(24,175)	(12,549)	(1,917)
Utilization	31,052	32,616	4,983
Translation differences	507	(84)	(13)
December 31	(133,788)	(113,805)	(17,388)

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

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

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax 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 provision 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, 2015, the provision for withholding tax payable was Rmb 113,805 (US$17,388) (2014: Rmb 133,788).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

9. Income tax expense (cont'd)

Deferred tax (cont'd)

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

	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Deferred tax assets	388,282	341,728	52,211
Deferred tax liabilities	(134,224)	(127,419)	(19,468)
	254,058	214,309	32,743

10. Earnings per share

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

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

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2013 Rmb'000	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share calculations	700,423	730,280	341,108	52,116
Weighted average number of ordinary shares for basic and diluted earnings per share calculations	37,267,673	37,720,248	38,712,282	38,712,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

10. Earnings per share (cont'd)

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:

	31.12.2013	31.12.2014	31.12.2015
Weighted average number of shares issued, used in the calculation of basic earnings per share	37,267,673	37,720,248	38,712,282
Diluted effect of share options	–	–	–
Weighted average number of ordinary shares (diluted)	37,267,673	37,720,248	38,712,282

There were no dilutive potential ordinary shares in the year ended December 31, 2013.

In 2015, 570,000 (2014: 570,000; 2013: Nil) 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.

11. Property, plant and equipment

	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost							
At January 1, 2014	555	1,746,255	793,456	4,102,598	149,021	111,489	6,903,374
Additions	–	4,285	625,311	26,609	22,854	4,870	683,929
Acquisition of subsidiaries (Note 4)	13,876	145,877	–	26,682	12,866	360	199,661
Disposals	–	(23,288)	–	(50,995)	(5,608)	(6,286)	(86,177)
Transfers	–	294,179	(812,569)	511,650	6,740	–	–
Write-off	–	–	(2,432)	–	(39)	–	(2,471)
Translation difference	(570)	(5,593)	(4)	(787)	(1,843)	(55)	(8,852)
At December 31, 2014 and January 1, 2015	13,861	2,161,715	603,762	4,615,757	183,991	110,378	7,689,464
Additions	–	19,275	368,620	13,967	17,641	10,387	429,890
Disposal of subsidiary (Note 4))	–	(82,065)	–	–	–	–	(82,065)
Disposals	–	(15,422)	–	(70,738)	(16,906)	(6,154)	(109,220)
Transfers	–	229,790	(639,453)	408,845	818	–	–
Write-off	–	(165)	(4,812)	(5)	(2,045)	–	(7,027)
Translation difference	(560)	(5,968)	–	1,994	(2,051)	70	(6,515)
At December 31, 2015	13,301	2,307,160	328,117	4,969,820	181,448	114,681	7,914,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

11. Property, plant and equipment (cont'd)

	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accumulated depreciation and impairment							
At January 1, 2014	555	451,530	2,432	2,262,272	90,975	59,447	2,867,211
Charge for the year	–	65,605	–	323,769	20,246	10,783	420,403*
Disposals	–	(9,874)	–	(43,891)	(5,832)	(4,483)	(64,080)
Write-off	–	–	(2,432)	–	(24)	–	(2,456)
Impairment loss	–	6,404	–	4,015	14	–	10,433
Translation difference	(24)	(1,210)	–	(622)	(999)	(34)	(2,889)
At December 31, 2014 and January 1, 2015	531	512,455	–	2,545,543	104,380	65,713	3,228,622
Charge for the year	–	79,042	–	345,977	22,162	8,821	456,002
Disposals of subsidiary (Note 4)	–	(15,468)	–	–	–	–	(15,468)
Disposals	–	(4,392)	–	(63,720)	(15,147)	(4,485)	(87,744)
Write-off	–	(64)	–	(5)	(2,027)	–	(2,096)
Impairment loss	–	–	–	2,873	–	–	2,873
Translation difference	(71)	1,284	–	694	807	80	2,794
At December 31, 2015	460	572,857	–	2,831,362	110,175	70,129	3,584,983
Net book value							
At December 31, 2014	13,330	1,649,260	603,762	2,070,214	79,611	44,665	4,460,842
At December 31, 2015	12,841	1,734,303	328,117	2,138,458	71,273	44,552	4,329,544
US$'000	1,962	264,973	50,131	326,722	10,889	6,807	661,484

* An amount of Rmb Nil (US$Nil) (2014: Rmb 1,728) was capitalized as intangible assets.

An impairment loss of Rmb 2,873 (US$439) (2014: Rmb 10,433; 2013: Rmb 9,163) was charged to the consolidated statement of profit or loss under "Cost of sales" and "Selling, distribution and administrative costs" for the Group's property, plant and equipment within the Yuchai segment. The impairment loss for 2013, 2014 and 2015 was due to assets that were not in use.

As of December 31, 2015, property, plant and equipment with a carrying amount of Rmb 90,045 (US$13,757) (2014: Rmb 113,878) are pledged to secure bank facilities.

Capitalized borrowing costs

The Group assessed that none of the borrowing cost qualified for capitalization during the year ended December 31, 2015 and December 31, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

11. Property, plant and equipment (cont'd)

Finance leases

The carrying value of property, plant and equipment held under finance leases at December 31, 2015 was Rmb 161 (US$25) (2014: Rmb 324). Additions during the year include Rmb Nil (US$Nil) (2014: Rmb 2,117) of property, plant and equipment under finance leases. Leased assets will be returned to lessor at the end of the lease term.

12. Investment property

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Cost			
Transfer from development properties and balance at December 31	–	31,323	4,786
Accumulated depreciation			
Transfer from development properties and balance at December 31	–	23,886	3,650
Net carrying amount	–	7,437	1,136
Fair value	–	7,437	1,136

During the year ended December 31, 2015, the commercial building with carrying amount of Rmb 7,437 (US$1,136) was transferred from development properties to investment property as this property was leased to third parties to generate rental income.

The Group has no restrictions on the realisability 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 valuer that has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value of investment property is based on market value between a willing buyer and a willing seller in an arm's length transaction. For comparison method, it compares the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at their opinion of value. The assumption used in determination of fair value, with key significant unobservable inputs (fair value level 3), was rental yield of 3% based on valuer's assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

13. Prepaid operating leases

Yuchai and its subsidiaries are granted land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government. The prepaid operating leases charged to expense were Rmb 12,581 and Rmb 13,433 (US$2,052) for the years ended December 31, 2014 and 2015, respectively.

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Current	13,498	12,546	1,917
Non-current	424,591	392,455	59,961
Total	438,089	405,001	61,878

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Cost			
At January 1	520,745	556,613	85,041
Additions	9,777	–	–
Acquisition of subsidiaries (Note 4)	28,609	–	–
Disposals of subsidiary (Note 4)	–	(24,760)	(3,783)
Disposals	(2,518)	(2,276)	(347)
At December 31	556,613	529,577	80,911
Accumulated amortization			
At January 1	106,137	118,524	18,109
Charge for the year	12,581	13,433	2,052
Disposals of subsidiary (Note 4)	–	(7,099)	(1,085)
Disposals	(194)	(282)	(43)
At December 31	118,524	124,576	19,033
Net carrying amount	438,089	405,001	61,878

As of December 31, 2015, prepaid operating leases with a carrying amount of Rmb 74,377 (US$ 11,364) (2014: Rmb 77,733) are pledged to secure bank facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

14. Goodwill

	Rmb'000	US$'000
Cost		
At January 1, 2014, December 31, 2014 and December 31, 2015	218,311	33,354
Accumulated impairment		
At January 1, 2014, December 31, 2014 and December 31, 2015	5,675	867
Net book value		
At December 31, 2014 and December 31, 2015	212,636	32,487

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

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

- Yuchai
- Yulin Hotel. Goodwill allocated to Yulin Hotel was fully impaired in 2008.

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

	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Yuchai	212,636	212,636	32,487

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 an eight-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 11.46% (2014: 12.66%). No impairment was identified for this unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

14. Goodwill (cont'd)

Key assumptions used in value in use calculations

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

- Profit from operation
- Discount rate
- Growth rate used to extrapolate cash flows beyond the forecast period

Profit from operation – Profit from operation is based on management's estimate with reference to historical performance 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.

Growth rate estimate – Growth rate is based on management's estimate with reference to general available indication of long-term gross domestic product growth rate of China. The long term rates used to extrapolate the budget for Yuchai are 6.7% and 7.0% for 2015 and 2014 respectively.

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 profit from operation by 17.30% (2014: 28.66%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 12.96% (2014: 15.07%) in the Yuchai unit would result in impairment.

Growth rate assumptions – Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 4.40% (2014: 2.69%) in the long-term growth rate in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

15. Intangible assets

	Development costs
	Rmb'000
Cost	
At January 1, 2014	145,283
Additions – Internally developed	23,243
At December 31, 2014, January 1, 2015 and December 31, 2015	168,526
Impairment	
At January 1, 2014	–
Charge to consolidated statement of profit or loss	(60,000)
At December 31, 2014 and January 1, 2015	(60,000)
Charge to consolidated statement of profit or loss	(26,700)
At December 31, 2015	(86,700)
Net carrying value	
At December 31, 2014	108,526
At December 31, 2015	81,826
US$'000	12,502

The development costs are related to intellectual property right, technical skills and knowledge of building a new technology of heavy duty diesel engines. The Group has an intangible asset representing technology development costs held by Jining Yuchai with carrying amount of Rmb 50,122 (US$7,658) (2014: Rmb 76,822).

The Group performs an impairment review on intangible assets when there is a triggering event. In 2014, the impairment test was triggered when the non-controlling interest disposed its equity interest to an independent third party at a value below the net asset value of Jining Yuchai. In addition, modification has to be made to the existing technology that may delay the commercial deployment of this technology. As a result, an impairment charge of Rmb 60,000 was made in respect of the technology development cost held by Jining Yuchai. In 2015 the Group performed impairment review based on the updated business plan after due considerations of a slowdown in the PRC economy. As a result, a further impairment loss of Rmb 26,700 (US$4,079) was charged to consolidated statement of profit or loss under the line item "selling, distribution and administrative costs" in respect of this technology development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

15. Intangible assets (cont'd)

The Group use discounted cash flow method to assess the recoverable amount of asset. Cash flows were projected based on historical growth and past experience and did not exceed the estimated long-term average growth rate of the business in the PRC market. The recoverable amount of the intangible asset was based on its value in use. The Group used a 15-year forecast, from 2016 to 2030 using pre-tax discount rate of 12.34%. The revised business plan projected 6 years, year 2021, to reach commercial deployment of the technology. The revenue growth rate is estimated at 11.10% from 2021 to 2026. Thereafter, the growth rate is at 0% from 2026 to 2030. In 2014, the Group used a 10-year forecast, using pre-tax discount rate of 12.24% and growth rate of 0% from 2025, 5 years after the expected commercial deployment of the technology till the end of the useful life of the technology.

If the pre-tax discount rate increased by 1% (2014: 1%) from management estimates, the Group's impairment loss on intangible asset in Jining Yuchai will increase by Rmb 18,447 (US$2,818) (2014: Rmb 24,131).

16. Other financial liabilities

(a) Other liabilities

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Finance lease liabilities (Note 30)	220	114	17

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Current	92	59	9
Non-current	128	55	8
Total	220	114	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

16. Other financial liabilities (cont'd)

(b) Interest-bearing loans and borrowings

	Effective interest rate	Maturity	31.12.2014
	%		Rmb'000
Current			
Renminbi denominated loans	5.81	2015	1,161,300
Euro denominated loans	1.01	2015	41,162
Malaysian Ringgit denominated loans	6.35	2015	6,539
			1,209,001
Non-current			
Renminbi denominated loans	5.00	2016	1,015,948
Singapore Dollar denominated loans(ii)	1.31	2017	32,431
Malaysian Ringgit denominated loans	6.35	2020	29,337
			1,077,716

	Effective interest rate	Maturity	31.12.2015	31.12.2015
	%		Rmb'000	US$'000
Current				
Renminbi denominated loans	4.72	2016	2,113,691	322,938
Euro denominated loans	0.95	2016	280,922	42,920
Malaysian Ringgit denominated loans	6.05	2016	4,582	700
			2,399,195	366,558
Non-current				
Renminbi denominated loans	8.28	2017	3,751	574
Singapore Dollar denominated loans(ii)	2.15	2017	32,138	4,910
Malaysian Ringgit denominated loans	6.05	2020	20,620	3,150
			56,509	8,634

Note:

(i) The Group has the discretion to refinance or rollover the obligations for at least 12 months after the reporting period for the existing loan facilities. All loans balances as stated above do not have a callable feature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

16. Other financial liabilities (cont'd)

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

Note: (cont'd)

(ii) The loans are comprised of:

Issuer bank	**Facility limit**	**Usage**
		Rmb'000
December 31, 2014		
Bank of Tokyo-Mitsubishi, UFJ Ltd ("BOTM")	S$ 30 million	16,215
Sumitomo Mitsui Banking Corporation ("Sumitomo")	US$ 30 million	16,216
		32,431
December 31, 2015		
Bank of Tokyo-Mitsubishi, UFJ Ltd ("BOTM")	S$ 30 million	16,069
Sumitomo Mitsui Banking Corporation ("Sumitomo")	US$ 30 million	16,069
		32,138
	US$'000	4,910

S$30.0 million credit facility with DBS

On November 10, 2011, the Company entered into a three year revolving credit facility agreement with DBS with a committed aggregate value of S$30.0 million. Among other things, the terms of the facility required that HLA retains ownership of the special share and that the Company remain a consolidated subsidiary of HLA. The terms of the facility also included certain financial covenants with respect to the company tangible net worth (as defined in the agreement) not being less than US$350 million, and the ratio of the Company total net debt (as defined in the agreement) to tangible net worth not exceeding 1.0 times. This arrangement was used to finance the Company general working capital requirements and was repaid in full upon expiration of the facility on November 10, 2014. On May 22, 2015, the Company entered into a three year revolving uncommitted credit facility agreement with the bank with an aggregate value of S$30.0 million. The terms and conditions of this facility remain similar to the facility agreement dated November 10, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

16. Other financial liabilities (cont'd)

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

S$30.0 million credit facility with BOTM, Singapore Branch

On March 11, 2011, the Company entered into a new facility agreement with BOTM to refinance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S$30.0 million with three-year duration from March 18, 2011 to March 18, 2014. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that HLA retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not being less than US$120 million and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

On March 13, 2014, the Group entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2014. The new unsecured multi-currency revolving credit facility has a committed aggregate value of S$30.0 million and is for a three-year duration. The terms and conditions of this facility agreement remained similar to the facility agreement dated March 11, 2011.

US$30.0 million credit facility with Sumitomo, Singapore Branch

On March 18, 2011, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US$30.0 million to refinance the US$30.0 million facility that was due to mature on March 25, 2011. The facility is available for three years from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not less than US$200 million and the ratio of our total consolidated net debt (as defined in the agreement) to consolidated tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

On March 12, 2014, the Group entered into a supplemental agreement with the bank to renew the existing US$30.0 million facility that matured on March 18, 2014. The new unsecured multi-currency revolving credit facility has a committed aggregate value of US$30.0 million and is for a three-year duration. The terms and conditions of this facility agreement remained similar to the facility agreement dated March 18, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

16. Other financial liabilities (cont'd)

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

Yuchai Rmb 1 billion medium-term notes

Yuchai received approval from China's National Association of Financial Market Institutional Investors ("NAFMII") for the issuance of RMB-denominated three-year unsecured medium-term notes ("Notes") amounting to Rmb 1.6 billion. On May 28, 2013, Yuchai issued the first tranche of the Notes amounting to Rmb 1 billion. The par value and issue price of each Note is Rmb 100. The fixed annual interest payable on the Notes is 4.69% which is the rate as of May 30, 2013. The maturity date of the Notes is May 30, 2016. Subscription to and trading of the Notes is only available in China to institutional investors of China's National Inter-bank Bond Market. The first tranche of the Notes was underwritten by China CITIC Bank Corporation Limited. The proceeds from the issuance of the Notes are to be used by Yuchai to repay bank loans and for working capital purposes.

Yuchai Rmb 2 billion ultra short-term bonds

On April 8, 2015, Yuchai received approval from its board of directors, shareholders and China's National Association of Financial Market Institutional Investors ("NAFMII") to issue ultra short-term bonds ("USTB") amounting to Rmb 2 billion with a term not exceeding 270 days, Yuchai issued the first tranche of the USTB amounting to Rmb 400 million. The first tranche of the USTBs bear a fixed annual interest rate of 4.9% and matured on May 9, 2015. All the proceeds from the issuance of the USTBs were used by Yuchai as working capital and repayment of loans. On September 16, 2015, Yuchai issued the second tranche of the USTB amounting to Rmb 400 million. The second tranche of the USTBs bear a fixed annual interest rate of 3.9% and will mature on June 13, 2016. All the proceeds from the issuance of the USTBs are to be used by Yuchai for the repayment of loans. NAFMII's approval to issue USTB of Rmb 2 billion is valid for two years commencing from February 28, 2015.

17. Deferred grants

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
At January 1	346,110	340,821	52,072
Received during the year	14,562	39,558	6,044
Released to consolidated statement of profit or loss	(26,151)	(19,596)	(2,994)
Acquisition of subsidiaries (Note 4)	6,300	–	–
At December 31	340,821	360,783	55,122
Current (Note 27)	27,817	26,455	4,042
Non-current	313,004	334,328	51,080
	340,821	360,783	55,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

18. Inventories

Inventories are comprised of:

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Raw materials	1,222,833	986,051	150,652
Work in progress	21,004	14,499	2,215
Finished goods	677,343	710,780	108,596
Total inventories at the lower of cost and net realizable value	1,921,180	1,711,330	261,463

Inventories recognized as an expense in "Cost of sales" are Rmb 11,283,308, Rmb 11,781,032 and Rmb 9,531,439 (US$1,456,249) for the years ended December 31, 2013, 2014 and 2015 respectively.

An analysis of the inventory reserve accounts is as follows:

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
At January 1	105,610	108,353	16,555
Inventories written down	21,297	59,339	9,066
Reversal of write-down of inventories	(24,694)	(24,079)	(3,679)
Written off	(1,626)	(11,307)	(1,728)
Acquisition of subsidiaries	7,766	–	–
At December 31	108,353	132,306	20,214

The inventories written down and reversal of write-down of inventories recognized as an expense and included in "Cost of sales" amounted to Rmb 20,604, Rmb 3,397 and Rmb 35,260 (US$5,387) for the years ended December 31, 2013, 2014 and 2015 respectively. The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2014 and 2015.

As of December 31, 2015, inventories with a carrying amount of Rmb Nil (US$Nil) (2014: Rmb 26,677) are pledged to secure bank facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Other current assets

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Development properties	33,435	22,609	3,454
Held for trading investment (Note 1.3)	22,855	11,984	1,831
Derivative not designated as hedges – foreign exchange forward contract	–	15,506	2,369
	56,290	50,099	7,654

Foreign exchange forward contract

On December 22, 2015, Yuchai entered into a non-deliverable forward foreign exchange contract ("NDF") with Industrial and Commercial Bank of China ("ICBC") to purchase Euro 39.1 million at the forward exchange rate (Rmb/Euro) of 6.6987 on April 13, 2016. The Group accounted this NDF at fair value through "Other operating income" in the statement of profit or loss (Note 8.2(a)).

There was no outstanding foreign exchange forward contract as of December 31, 2014.

20. Trade and bills receivables

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Trade receivables (net)	394,763	385,801	58,944
Bills receivable [i]	7,718,331	6,792,712	1,037,816
Total (Note 35)	8,113,094	7,178,513	1,096,760

[i] As of December 31, 2015, bills receivable includes bills receivable from joint venture and other related parties amounted Rmb 50,000 (US$7,639) (2014: Rmb 101,255) and Rmb 2,000 (US$306) (2014: Rmb 200), respectively.

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

As of December 31, 2014 and 2015, outstanding bills receivables discounted with banks for which the Group retained a recourse obligation totalled Rmb 730,736 and Rmb Nil (US$Nil) respectively. All bills receivables discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2014 and 2015, outstanding bills receivables endorsed to suppliers with recourse obligation were Rmb 812,537 and Rmb 859,679 (US$131,345) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

20. Trade and bills receivables (cont'd)

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

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
At January 1	28,533	21,927	3,350
(Credit)/charge to consolidated statement of profit or loss	(2,361)	30,192	4,613
Written off	(4,552)	(827)	(126)
Acquisition of subsidiaries	312	–	–
Translation differences	(5)	(4)	(1)
December 31	21,927	51,288	7,836

The Group's historical experience in the collection of trade receivables falls within the recorded allowances. Due to this factor, management believes that no additional credit risks beyond the amount provided for collection losses are inherent in the Group's trade receivables.

As of December 31, 2014 and 2015, gross trade receivables due from a major customer, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were Rmb 176,461 and Rmb 19,914 (US$3,043), respectively. See Note 32 for further discussion of customer concentration risk.

			Past due but not impaired			
	Total	Neither past due nor impaired	0 - 90 days	91-180 days	181-365 days	>365 days
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31.12.2015	7,178,513	6,914,279	161,642	52,442	39,052	11,098
At 31.12.2014	8,113,094	7,979,625	96,069	15,760	21,456	184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

21. Other receivables

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Staff advances	12,939	7,853	1,200
Associates and joint ventures	135,850	176,422	26,954
Other related parties	7,240	6,300	962
Interest receivables	12,036	7,280	1,112
Bills receivable in transit	2,513	2,998	458
Others	15,472	16,719	2,555
Impairment losses – other receivables (i)	(2,041)	(4,662)	(712)
Loans and receivables (Note 35)	184,009	212,910	32,529
Tax recoverable	60,731	135,241	20,663
Total	244,740	348,151	53,192

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

Note:

(i) An analysis of the impairment losses – other receivables is as follows:

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
At January 1	1,275	2,041	312
Charge to consolidated statement of profit or loss	766	2,746	419
Written off	–	(125)	(19)
At December 31	2,041	4,662	712

The Group's historical experience in the collection of other receivables falls within the recorded allowances. Due to this factor, management believes that no additional credit risks beyond the amount provided for collection losses are inherent in the Group's other receivables.

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Other receivables (non-current) (i) (Note 35)	1,261	1,519	232

(i) Non-current other receivables relate to non-trade receivables from joint ventures which are not expected to be settled next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

22. Cash and cash equivalents

Short-term bank deposits

Restricted cash

Long-term bank deposits

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Non-current			
Long-term bank deposits (i)	–	60,000	9,167
Current			
Cash and cash equivalents	2,291,345	3,474,364	530,827
Short-term bank deposits (ii)	193,440	7,195	1,099
Restricted cash	24,249	300,564	45,921
	2,509,034	3,782,123	577,847
Cash and bank balances	2,509,034	3,842,123	587,014

Note:

(i) In 2015, YMMC placed two-year time deposits of Rmb 60,000 (US$9,167) (2014: Rmb Nil) at an annual interest rate of 4.03% (2014: Nil) with banks. These long-term fixed deposits are not considered as cash equivalents.

(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, 2015 for the Group ranged from 0.66% to 3.63% (2014: 0.35% to 3.75%). 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 bank deposits and short-term bank deposits) as at December 31, 2015 for the Group ranged from 0.70% to 2.80% (2014: 0.21% to 5.06%).

Cash and bank balances denominated in various currencies are mainly held in bank accounts in Singapore. As of December 31, 2015, the Group has restricted cash of Rmb Nil (US$Nil) (2014: Rmb 24,249) which was used as collateral by the banks for the issuance of bills to suppliers and would mature after three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

22. Cash and cash equivalents (cont'd)

Short-term bank deposits

Restricted cash

Long-term bank deposits

As at December 31, 2015, the Group has restricted cash of Rmb 300,564 (US$45,921) which was deposited by Yuchai with ICBC as guarantee of short-term Euro loan granted by the same bank amounting to Euro 39.1 million, equivalent to Rmb 275.8 million (US$ 42.1 million) at annual interest rate of 0.30%.

As of December 31, 2014 and 2015, the Group had available Rmb 692,250 and Rmb 300,404 (US$45,897), respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2013, 2014 and 2015 were Rmb 539, Rmb 466 and Rmb 368 (US$56) respectively.

23. Issued capital and reserves

	31.12.2014 thousands	31.12.2015 thousands
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, 2014	37,267,673	1,724,196
Issued on July 7, 2014 as dividend payment (Note 24)	928,033	116,031
At December 31, 2014 and January 1, 2015	38,195,706	1,840,227
Issued on July 14, 2015 as dividend payment (Note 24)	1,102,634	115,493
At December 31, 2015	39,298,340	1,955,720
US$'000		298,802

	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$0.10 per share	*	*	*
Non-redeemable convertible cumulative preference shares	21	21	3

* Less than Rmb 1 (US$1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

23. Issued capital and reserves (cont'd)

On July 14, 2015, based on the elections by shareholders, the dividend of US$1.10 per share of common stock for the financial year 2014 was paid in the form of approximately US$23.4 million in cash and 1,102,634 shares, at the volume weighted average trading price of US$16.8792 per share, with total value equivalent to Rmb 115,493.

On July 7, 2014, based on the elections by shareholders, the dividend of US$1.20 per share of common stock for the financial year 2013 was paid in the form of approximately US$26 million in cash and 928,033 shares, at the volume weighted average trading price of US$20.1343 per share, with total value equivalent to Rmb 116,031.

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 HLA, 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.

HLGE issued 197,141,190 NCCPS at an issue price of S$0.02 each on July 4, 2006, expiring on the 10th anniversary of the NCCPS issue date, and 196,982,796 NCCPS have been converted into ordinary shares in the capital of HLGE.

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

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

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

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

Foreign currency translation reserve

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

23. Issued capital and reserves (cont'd)

Performance shares reserve

The performance shares reserve comprises the cumulative value of employee services received for the issue of share options. The amount in the reserve is retained when the option is exercised or expired.

24. Dividends declared and paid

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2015: **US$1.10** per share (2014: **US$1.20** per share)	274,524	257,500	39,342
	274,524	257,500	39,342
Dividend paid in cash	158,493	142,007	21,696
Dividend paid in shares (Note 23)	116,031	115,493	17,646
	274,524	257,500	39,342

25. Statutory reserves

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Statutory general reserve (ii)			
At January 1	189,371	191,433	29,248
Transfer from retained earnings	2,064	1,332	204
Reduced due to liquidation of a subsidiary	(2)	–	–
Disposal of a subsidiary	–	(5,891)	(900)
At December 31	191,433	186,874	28,552
Statutory public welfare fund (iii)			
At January 1 and December 31	85,641	85,641	13,085
General surplus reserve (iv)			
At January 1 and December 31	25,706	25,706	3,927
Total	302,780	298,221	45,564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

25. Statutory reserves (cont'd)

Note:

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

(ii) In accordance with the relevant regulations in the PRC, a 10% appropriation to the statutory general reserve based on the net income reported in the PRC financial statements is required until the balance reaches 50% of the authorized share capital of Yuchai and its subsidiaries. Statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to stockholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the authorized share capital.

(iii) Yuchai and its subsidiaries shall determine to transfer 5% to 10% of its net income reported in the PRC financial statements to the statutory public welfare fund. There is no limit on the amount that may be allocated to this fund. This fund can only be utilized on capital expenditure for the collective welfare of Yuchai and its subsidiaries' employees, such as the construction of dormitories, canteen and other welfare facilities, and cannot be utilized to pay staff welfare expenses. The transfer to this fund must be made before the distribution of a dividend to stockholders. Since January 1, 2006, in accordance with the amended Yuchai's policy, the contribution to the fund ceased.

(iv) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

26. Share-based payment (cont'd)

The expense recognized for employee services received during the year is shown in the following table:

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Expense arising from equity-settled share-based payment transactions	5,360	10,275	1,570
Total expense arising from share-based payment transactions	5,360	10,275	1,570

There were no cancellations or modifications to the awards in 2014 and 2015.

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 shares	WAEP	Number of shares	WAEP
	2014	2014	2015	2015
Outstanding at January 1	–	–	570,000	US$21.11
Granted during the year	570,000	US$21.11	–	–
Outstanding at December 31	570,000	US$21.11	570,000	US$21.11
Exercisable at December 31	–	US$21.11	–	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 behavioural considerations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

26. Share-based payment (cont'd)

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 at the end of the year was US$21.11 (2014: US$21.11).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2015 was 8.6 (2014: 9.6) 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.

There are no market conditions associated with the share options grants. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

27. Trade and other payables

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	**Rmb'000**	**US$'000**
Trade and bills payables (i)	4,214,289	3,841,756	586,958
Other payables	1,279,830	1,300,439	198,686
Interest payable	28,148	33,492	5,117
Accrued staff costs	431,070	338,437	51,707
Dividend payable	27,767	41,377	6,322
Associates and joint ventures	15,771	18,909	2,889
Other related parties	108,325	142,932	21,838
Financial liabilities at amortized cost (Note 35)	6,105,200	5,717,342	873,517
Accrued contribution to defined contribution plans	33,258	27,820	4,250
Other tax payable	39,600	39,064	5,968
Trade and other payables with liquidity risk (Note 32)	6,178,058	5,784,226	883,735
Deferred grants (Note 17)	27,817	26,455	4,042
Deferred income (ii)	170,000	170,000	25,973
Advance from customers	50,833	96,168	14,693
Total trade and other payables (current)	6,426,708	6,076,849	928,443

(i) As of December 31, 2015, the trade and bills payables include bills payable to associates and other related parties amounted Rmb 7,230 (US$1,105) (2014: Rmb 12,500) and Rmb 192,927 (US$29,476) (2014: Rmb 165,183), respectively.

(ii) This relates to the Group's transfer of technology know-how to a joint venture of which revenue has not been recognized.

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	**Rmb'000**	**US$'000**
Other payables (non-current) (i) (Note 32, Note 35)	120,588	115,341	17,622

(i) Non-current other payables relate to provision for bonus which is not expected to be settled next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

27. Trade and other payables (cont'd)

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- Interest payable is normally settled throughout the financial year. Interest payable related to outstanding medium-term notes and ultra short-term bonds were Rmb 27,679 (US$4,229) (2014: Rmb 27,626) and Rmb 4,576 (US$699) (2014: Rmb Nil) respectively.
- For terms and conditions relating to related parties, refer to Note 29.

28. Provision for product warranty

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
At January 1	305,938	298,552	45,614
Provision made	394,940	307,575	46,993
Provision utilized	(402,326)	(372,550)	(56,920)
At December 31	298,552	233,577	35,687

29. Related party disclosures

The ultimate parent

As of December 31, 2015, the controlling shareholder of the Company, HLA, indirectly owned 15,189,528, or 38.7%, 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 22.5% 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 16.2% 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.

There were transactions other than dividends paid, between the Group and HLA of Rmb 98, Rmb 297 and Rmb 32 (US$5) during the financial years ended December 31, 2013, 2014 and 2015 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

29. Related party disclosures (cont'd)

Entity with significant influence over the Group

As of December 31, 2015, the Yulin City Government through Coomber Investment Ltd. owned 18.4% (2014: 18.4%) of the ordinary shares in the capital of the Company.

The following provides the significant amount of transactions that have been entered into with related parties for the relevant financial year at terms agreed between the parties (for information regarding outstanding balances at December 31, 2014 and 2015, refer to Note 21 and Note 27):

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Sales of diesel engines to State Holding Company, its subsidiaries and affiliates (i)	1,665	1,462	185	28
Sales of raw materials to State Holding Company, its subsidiaries and affiliates (i)	970,950	802,715	516,494	78,912
Hospitality and restaurant service charged to State Holding Company, its subsidiaries and affiliates (i)	5,286	1,700	3,247	496
Sales to associates and joint ventures (i)	278,935	237,203	156,444	23,902
Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company (i)	(1,608,698)	(1,460,956)	(1,181,852)	(180,568)
Purchases of raw materials and supplies from associates and joint ventures (i)	(107,802)	(87,509)	(90,354)	(13,805)
Delivery expense charged by subsidiaries of State Holding Company (ii)	(214,752)	(213,747)	(164,690)	(25,162)
Storage and distribution expenses charged by a subsidiary of State Holding Company (iii)	(49,885)	(32,131)	(30,462)	(4,654)
Purchases of vehicles and machineries from State Holding Company and its subsidiary (iv)	–	(16,725)	(1,963)	(230)
Purchases of additional shareholding in a subsidiary of State Holding Company (v)	–	–	(4,170)	(637)
General and administrative expenses				
- Charged by State Holding Company (vi)	(24,876)	(24,713)	(26,500)	(4,049)
- Charged by State Holding Company (vii)	–	(4,853)	(12,951)	(1,979)
- Charged by HLA (viii)	(98)	(297)	(32)	(5)
- Charged by affiliates of HLA (ix)	(6,489)	(6,821)	(6,271)	(958)
- Charged to joint ventures (x)	1,745	1,383	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

29. Related party disclosures (cont'd)

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

Note:

(i) Sale and purchase of raw materials, supplies, scraps and diesel engines to/from State Holding Company, its subsidiaries and affiliates, and Yuchai's associates and joint ventures. Hospitality and restaurants services provided to State Holding Company. Certain subsidiaries and affiliates of State Holding Company have acted as suppliers of raw materials and supplies to the Group and certain subsidiaries of State Holding Company have acted as sales agents of the Group. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue at terms agreed between the parties.

(ii) Delivery expense charged by subsidiaries of State Holding Company. The fee is for the delivery of spare parts charged, which were recorded in "Cost of sales" and "Selling, distribution and administrative costs" respectively. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue at terms agreed between the parties.

(iii) Storage and distribution expenses charged by a subsidiary of State Holding Company for the storage of engines, components and parts for Yuchai and distribution to the production facilities.

(iv) Vehicles and machineries were purchased by Yuchai from State Holding Company and its subsidiary.

(v) In October 2015, Yuchai acquired 2.86% of equity interest in YAMC from State Holding Company with a purchase consideration of Rmb 4.2 million.

(vi) General and administrative expenses charged by subsidiary and associate of State Holding Company. The subsidiary is also an associate of Yuchai, for property management services rendered.

(vii) General and administrative expenses charged by State Holding Company for rental of apartment to Yuchai's newly graduated employees.

(viii) General and administrative expenses charged by HLA for consultancy fees.

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

(x) Hotel management fees, rental, administrative fees and license fees charged to joint ventures.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

29. Related party disclosures (cont'd)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on normal commercial terms. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

Compensation of key management personnel of the Group

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
Short-term employee benefits	34,949	39,812	27,331	4,176
Contribution to defined contribution plans	313	294	305	47
Cost of share-based payment	–	4,455	8,477	1,295
	35,262	44,561	36,113	5,518

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

30. Commitments and contingencies

Operating lease commitments - Group as lessee

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

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

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Within one year			
- With related parties	673	5,405	825
- With third parties	11,469	7,858	1,201
After one year but not more than five years			
- With related parties	820	1,859	284
- With third parties	9,023	5,131	784
More than five years			
- With related parties	–	–	–
- With third parties	113	–	–
	22,098	20,253	3,094

The minimum lease payments recognized as an expense in the period ended December 31, 2013, 2014 and 2015 amounted to Rmb 51,115, Rmb 52,728 and Rmb 60,201 (US$9,198).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

30. Commitments and contingencies (cont'd)

Operating lease commitments - Group as lessor

The Group has leased out some of its assets, including surplus office and manufacturing buildings. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Within one year			
- With related parties	828	1,319	201
- With third parties	2,299	2,537	388
After one year but not more than five years			
- With related parties	628	–	–
- With third parties	6,224	9,128	1,395
More than five years			
- With related parties	–	–	–
- With third parties	17,505	18,967	2,898
	27,484	31,951	4,882

Finance lease commitments

The Group has finance lease for plant and equipment and motor vehicles. The lease has term of renewal but no purchase options and escalation clause. Renewal is at the option of the Group.

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	31.12.2014		31.12.2015			
	Minimum lease payments	Present value of payments	Minimum lease payments		Present value of payments	
	Rmb'000	Rmb'000	Rmb'000	US$'000	Rmb'000	US$'000
Not later than one year	101	92	64	9	59	9
Later than one year but not later than five years	142	128	59	9	55	8
Total minimum lease payments	243	220	123	18	114	17
Less: Amount representing finance charges	(23)	–	(9)	(1)	–	–
Present value of minimum lease payments	220	220	114	17	114	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

30. Commitments and contingencies (cont'd)

Capital commitments

As of December 31, 2014 and 2015, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not recognized in the financial statements amounting to Rmb 989,107 and Rmb 570,650 (US$87,168), respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2014 and 2015, the Group has commitment of Rmb Nil and Rmb 6,195 (US$ 946) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2014 and 2015, Yuchai had issued irrevocable letter of credits of Rmb 50,671 and Rmb 3,981 (US$608), respectively.

Product liability

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

Environmental liability

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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.

- The 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.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment revenues are eliminated upon consolidation and reflected in the "Adjustments and eliminations" column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Year ended December 31, 2013	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Revenue				
External customers	15,870,380	31,975	–	15,902,355
Inter-segment	–	–	–	–
Total revenue	15,870,380	31,975	–	15,902,355
Results				
Interest income	76,634	980	1,325[(1)]	78,939
Interest expense and loss from de-recognition of bills receivable	(155,787)	(7,321)	6,163[(1)]	(156,945)
Impairment of property, plant and equipment	(9,163)	–	–	(9,163)
Depreciation and amortization	(383,788)	(4,611)	(540)[(2)]	(388,939)
Share of profit/(loss) of associates	164	(5)	–	159
Share of (loss)/profit of joint ventures	(51,921)	554	(27,878)[(9)]	(79,245)
Income tax expense	(196,089)	(2,617)	(23,441)[(3)]	(222,147)
Segment profit	1,228,728	(25,922)	(40,687)[(4)]	1,162,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

31. Segment information (cont'd)

Year ended December 31, 2014	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Revenue				
External customers	16,387,356	48,786	–	16,436,142
Inter-segment	–	–	–	–
Total revenue	16,387,356	48,786	–	16,436,142
Results				
Interest income	42,014	1,463	2,347[(1)]	45,824
Interest expense and loss from de-recognition of bills receivable	(149,797)	(7,700)	5,866[(1)]	(151,631)
Impairment of property, plant and equipment	(10,433)	–	–	(10,433)
Impairment of technology development cost	(60,000)	–	–	(60,000)
Depreciation and amortization	(422,777)	(7,872)	(607)[(2)]	(431,256)
Share of profit/(loss) of associates	960	(4)	–	956
Share of losses of joint ventures	(19,067)	(8,840)	(2,804)[(9)]	(30,711)
Income tax expense	(156,861)	(2,115)	(20,663)[(3)]	(179,639)
Segment profit	1,249,021	15,937	(63,573)[(4)]	1,201,385
Total assets	17,756,594	374,511	642,231[(5)]	18,773,336
Total liabilities	(9,387,693)	(375,564)	141,735[(6)]	(9,621,522)
Other disclosures				
Investment in associates	2,842	333	–	3,175
Investment in joint ventures	181,933	19,708	70,575[(8)]	272,216
Capital expenditure	677,767	6,082	80[(7)]	683,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

31. Segment information (cont'd)

Year ended December 31, 2015	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements	Consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	US$'000
Revenue					
External customers	13,671,931	61,506	–	13,733,437	2,098,246
Inter-segment	–	–	–	–	–
Total revenue	13,671,931	61,506	–	13,733,437	2,098,246
Results					
Interest income	35,557	1,415	4,342[(1)]	41,314	6,312
Interest expense and loss from de-recognition of bills receivable	(110,618)	(7,587)	5,226[(1)]	(112,979)	(17,261)
Impairment of property, plant and equipment	(2,873)	–	–	(2,873)	(439)
Impairment of technology development cost	(26,700)	–	–	(26,700)	(4,079)
Depreciation and amortization	(458,759)	(10,060)	(616)[(2)]	(469,435)	(71,722)
Share of profit/(loss) of associates	250	(5)	–	245	37
Share of losses of joint ventures	(10,480)	(11,584)	19,128[(9)]	(2,936)	(448)
Income tax expense	(161,731)	(2,491)	(12,596)[(3)]	(176,818)	(27,015)
Segment profit	744,846	(7,564)	(51,144)[(4)]	686,138	104,831
Total assets	17,684,449	343,236	787,917[(5)]	18,815,602	2,874,718
Total liabilities	(9,183,670)	(359,796)	157,933[(6)]	(9,385,533)	(1,433,957)
Other disclosures					
Investment in associates	3,092	287	–	3,379	516
Investment in joint ventures	170,484	6,597	89,703[(8)]	266,784	40,760
Capital expenditure	428,917	929	44[(7)]	429,890	65,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

31. Segment information (cont'd)

Note:

(1) Included here are interest income and expense of the holding entity's interest income and expense and inter-segment interest income and expense that are eliminated on consolidation.

(2) Included here are the depreciation of the holding entity's property, plant and equipment and additional depreciation on HLGE's property, plant and equipment valued at fair value in excess of costs.

(3) This relates mainly to the withholding tax provisions for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai that has not been remitted.

(4) Profit/(loss) for each operating segment does not include income tax expense.

(5) Segment assets included goodwill and other assets of holding entity and increase in value of HLGE's property, plant and equipment based on fair value in excess of costs.

(6) Included here are mainly the liabilities of the holding entity and cumulative withholding tax provision for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai that has not been remitted.

(7) Included here are capital expenditures incurred by the holding entity.

(8) Included here are HLGE's share of its joint ventures' property, plant and equipment valued at fair value in excess of costs and impairment or reversal of impairment.

(9) Included here are HLGE's share of additional depreciation on its joint ventures' property, plant and equipment valued at fair value in excess of costs and impairment or reversal of impairment.

There has been no change to the Group's measurement of segment profit for each reportable operating segment.

Geographic information

Revenue from external customers:

	31.12.2013	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	Rmb'000	US$'000
China	15,846,051	16,359,873	13,630,979	2,082,592
Other countries	56,304	76,269	102,458	15,654
	15,902,355	16,436,142	13,733,437	2,098,246

The revenue information above is based on the location of the customer.

Revenue from one customer group amounted to Rmb 2,900,332 (US$443,124) (2014: Rmb 3,687,953; 2013: Rmb 3,298,400), arising from sales by Yuchai segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. Segment information (cont'd)

Non-current assets

	31.12.2014 Rmb'000	31.12.2015 Rmb'000	31.12.2015 US$'000
China	5,374,624	5,194,164	793,584
Other countries	104,187	96,518	14,746
	5,478,811	5,290,682	808,330

Non-current assets for this purpose consist of property, plant and equipment, prepaid operating leases, investment in joint ventures, investment property, intangible asset and goodwill.

32. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. 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 held for trading investment and enters into derivative transactions.

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 of 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, held for trading investment and derivative financial instrument.

The sensitivity analyses in the following sections relate to the position as at December 31, 2014 and 2015.

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, 2015.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

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 16(b). As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

The Group manages its interest rate risk by having a mixture of fixed and variable rates for its deposits and borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest-bearing financial liabilities at the end of the reporting period and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used and represents management's assessment of the possible change in interest rates.

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2015 of the Group would increase/decrease by Rmb 6,632 (US$1,013) (2014: increase/decrease by Rmb 1,110).

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, Renminbi, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

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

	31.12.2014				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Held for trading investment	22,855	–	–	–	–
Trade and other receivables	814	31,546	6,738	31,933	5
Cash and bank balances	138,540	–	2,041	–	357
Financial liabilities	(32,467)	(41,162)	–	–	–
Trade and other payables	(51,898)	–	(19,608)	(1,518)	–
Net assets/(liabilities)	77,844	(9,616)	(10,829)	30,415	362

	31.12.2015				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Held for trading investment	11,984	–	–	–	–
Trade and other receivables	565	407	12,762	32,651	–
Cash and bank balances	124,034	–	2,177	29,520	938
Financial liabilities	(32,163)	(280,924)	–	–	–
Trade and other payables	(12,978)	(50)	(5,051)	(2,020)	–
Net assets/(liabilities)	91,442	(280,567)	9,888	60,151	938
US$'000	13,971	(42,866)	1,511	9,190	143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Foreign currency risk sensitivity

A 10% strengthening of the following major currencies against the functional currency of each of the Group's entities at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit before tax		
	31.12.2014	**31.12.2015**	**31.12.2015**
	Rmb'000	**Rmb'000**	**US$'000**
Singapore Dollar	7,784	9,144	1,397
Euro	(962)	(28,057)	(4,287)
US Dollar	(1,083)	989	151
Renminbi	3,042	6,015	919

Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

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

	31.12.2014	**31.12.2015**	**31.12.2015**
	Rmb'000	**Rmb'000**	**US$'000**
Statement of profit or loss	2,286	1,198	183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

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.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistic for similar financial assets.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At December 31, 2015, the Group had top 20 customers (2014: top 20 customers) that owed the Group more than Rmb 196,537 (US$30,028) (2014: Rmb 236,491) and accounted for approximately 45% (2014: 57%) of accounts receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 47 customers (2014: 43 customers) with balances greater than Rmb 1,000 (US$153) accounting for over 88.4% (2014: 88.0%) of total accounts receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20 and Note 21. The Group does not hold collateral as security.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows, and having adequate amounts of committed credit facilities.

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

As at December 31, 2014	One year or less Rmb'000	Two to five years Rmb'000	More than five years Rmb'000	Total Rmb'000
Financial assets				
Trade and bills receivables	8,135,021	–	–	8,135,021
Other receivables, excluding tax recoverable	186,050	1,261	–	187,311
Cash and bank balances	2,509,034	–	–	2,509,034
Held for trading investment	22,855	–	–	22,855
	10,852,960	1,261	–	10,854,221
Financial liabilities				
Interest-bearing loans and borrowings	1,330,421	1,107,525	31,200	2,469,146
Trade and other payables (Note 27)	6,178,058	120,588	–	6,298,646
Other liabilities	101	142	–	243
	7,508,580	1,228,255	31,200	8,768,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

32. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

As at December 31, 2015	One year or less Rmb'000	Two to five years Rmb'000	More than five years Rmb'000	Total Rmb'000	Total US$'000
Financial assets					
Trade and bills receivables	7,229,801	–	–	7,229,801	1,104,596
Other receivables, excluding tax recoverable	217,572	1,519	–	219,091	33,473
Cash and bank balances	3,782,123	60,000	–	3,842,123	587,014
Held for trading investment and derivative not designated as hedges – foreign exchange forward contract	27,490	–	–	27,490	4,200
	11,256,986	61,519	–	11,318,505	1,729,283
Financial liabilities					
Interest-bearing loans and borrowings	2,473,654	59,673	–	2,533,327	387,051
Trade and other payables (Note 27)	5,784,226	115,341	–	5,899,567	901,357
Other liabilities	64	59	–	123	18
	8,257,944	175,073	–	8,433,017	1,288,426

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

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 stakeholders 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 and trade and other payables, less cash and bank balances) and equity attributable to equity holders of the parent (comprising issued capital and reserves).

	31.12.2014	31.12.2015	31.12.2015
	Rmb'000	Rmb'000	US$'000
Interest-bearing loans and borrowings (current and non-current) (Note 16)	2,286,717	2,455,704	375,192
Trade and other payables (current and non-current) (Note 27)	6,547,296	6,192,190	946,065
Less: Cash and bank balances (Note 22)	(2,509,034)	(3,842,123)	(587,014)
Net debts	6,324,979	4,805,771	734,243
Equity attributable to equity holders of the parent	6,988,432	7,239,617	1,106,096
Total capital and net debts	13,313,411	12,045,388	1,840,339

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, 2014 and 2015.

As disclosed in Note 25, 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, 2014 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

34. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2014:

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2014	22,855	22,855	–	–

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2015:

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2015	11,984	11,984	–	–
Derivative financial asset:					
Foreign exchange forward contract - Euro [i] (Note 19)	December 31, 2015	15,506	–	15,506	–

Note:

[i] Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.

There have been no transfers between Level 1 and Level 2 during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

35. Financial assets and financial liabilities

	Note	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities at amortized cost	Total
		Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**
As at December 31, 2014					
Financial assets					
Held for trading investment	19	22,855	–	–	22,855
Trade and bills receivables	20	–	8,113,094	–	8,113,094
Other receivables	21	–	185,270	–	185,270
Cash and bank balances	22	–	2,509,034	–	2,509,034
		22,855	10,807,398	–	10,830,253
Financial liabilities					
Trade and other payables	27	–	–	6,225,788	6,225,788
Loans and borrowings	16(b)	–	–	2,286,717	2,286,717
Other liabilities	16(a)	–	–	220	220
		–	–	8,512,725	8,512,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

35. Financial assets and financial liabilities (cont'd)

	Note	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities at amortized cost	Total	Total
		Rmb'000	Rmb'000	Rmb'000	Rmb'000	US$'000
As at December 31, 2015						
Financial assets						
Held for trading investment	19	11,984	–	–	11,984	1,831
Trade and bills receivables	20	–	7,178,513	–	7,178,513	1,096,760
Other receivables	21	–	214,429	–	214,429	32,761
Cash and bank balances	22	–	3,842,123	–	3,842,123	587,014
		11,984	11,235,065	–	11,247,049	1,718,366
Financial liabilities						
Trade and other payables	27	–	–	5,832,683	5,832,683	891,139
Loans and borrowings	16(b)	–	–	2,455,704	2,455,704	375,192
Other liabilities	16(a)	–	–	114	114	17
		–	–	8,288,501	8,288,501	1,266,348

Held for trading investment 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 the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. 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.

Fair value of financial instruments by classed that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The management assessed that cash and cash equivalents, short-term deposits, restricted cash, trade and bills receivables, other receivables, trade and other payables and interest-bearing loans and borrowings (current) approximate their carrying amounts largely due to the short-term maturities of these instruments.

The management assessed that long-term bank deposits, non-current other receivables, interest-bearing loans and borrowings (non-current), non-current other payables and other liabilities approximate their fair value as their interest rates approximate the market interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(RMB AND US$ AMOUNTS EXPRESSED IN THOUSANDS, EXCEPT PER SHARE DATA)

36. Events after the reporting period

(a) HLGE intention to dispose 60% equity interest in Copthorne Hotel Qingdao Co., Ltd.

On February 22, 2016, HLGE announced that its wholly-owned subsidiary, LKN Investment International Pte. Ltd. ("LKNII") intends to dispose of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. ("CHQ") ("LKNII Equity Interest"). The remaining 40% equity interest in CHQ is currently held by the CAAC East China Regional Administration Authority Service Center ("CAAC") (the "CAAC Equity Interest"). LKNII and CAAC will dispose CHQ together by way of public tender (the "Proposed Transaction") on the Shanghai United Assets and Equity Exchange ("SUAEE"). The reserve or floor price for the Proposed Transaction set by the seller is approximately Rmb 546.2 million. The actual aggregate consideration for the Proposed Transaction will be based on the bid price of the successful bidder which will be specified in the Sales and Purchase Agreement.

On March 22, 2016, HLGE announced that the public tender on SUAEE received no bid when the tender expired on March 21, 2016. LKNII and CAAC intend to list the LKNII Equity Interest and the CAAC Equity Interest, respectively again on the SUAEE for sale pursuant to the public tender process on March 28, 2016 for another period of 20 business days.

(b) Cooperation with MTU

On February 19, 2016, the Company's main operating subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL"), have signed an agreement to set up a 50/50 joint venture with MTU Friedrichshafen GmbH ("MTU"), a subsidiary of Rolls-Royce Power Systems. The joint venture is set up for the production, under license from MTU, of MTU diesel engines in China. Each party will invest Rmb 75 million (approximately Euro 10.5 million) in the joint venture.

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