China Yuchai International Limited

INNOVATING FOR THE FUTURE

ANNUAL REPORT 2021

CONTENTS

The YCA07 is a high power rating, 6-cylinder off-road engine compliant with China off-road Tier 4 emission standard. YCA07 is jointly designed by Yuchai and German FEV. It is a classic power model of China's domestic medium-duty engines for both industrial and agricultural markets.

CHINA YUCHAI'S CORE IDEALS

VISION

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

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

玉柴国际的核心理念

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

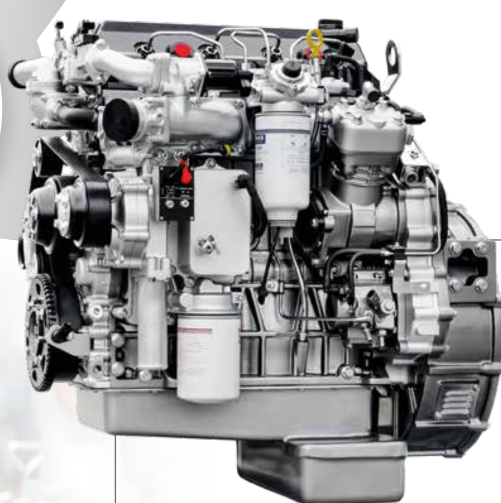
使命

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

FINANCIAL HIGHLIGHTS

	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	**21,265,930**	20,581,170	18,016,085
Profit attributable to equity holders of the Company	**272,673**	548,903	604,914
Total assets	**25,100,686**	26,290,958	23,854,191
Equity attributable to equity holders of the Company	**8,859,152**	9,014,624	8,767,529

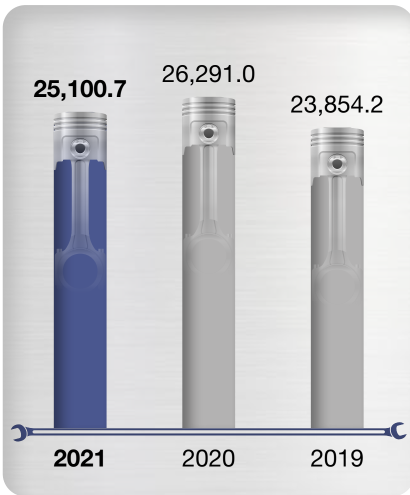
	2021 RMB	2020 RMB	2019 RMB
Earnings per share attributable to ordinary equity holders of the Company (RMB per share)	**6.67**	13.43	14.81
Weighted average number of shares	**40,858,290**	40,858,290	40,858,290



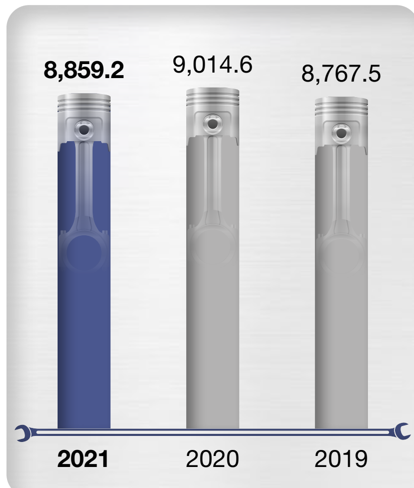
The upgraded Yuchai S04 series of engines is a medium-duty engine compliant with China's National VI emission standards for use in light- to medium-duty buses and trucks. It was the first engine in to be certified by the UN R49.07 Euro VI E stage emission standard. With this designation, Yuchai's engine technology has reached the world class standard, facilitating greater access to European and North America markets.

FINANCIAL HIGHLIGHTS

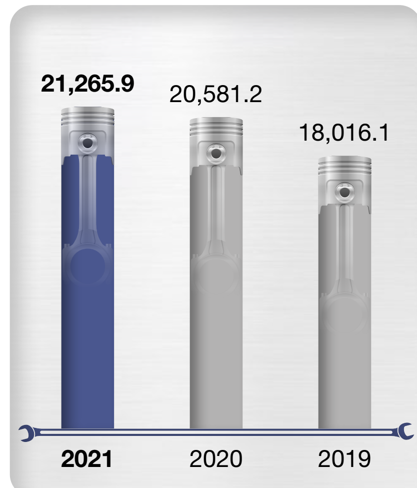
TOTAL ASSETS
(RMB Million)



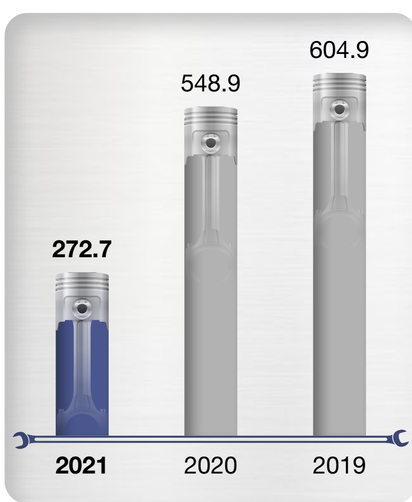
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(RMB Million)



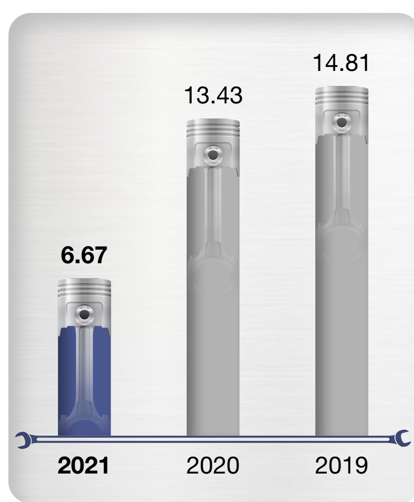
REVENUE
(RMB Million)



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



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

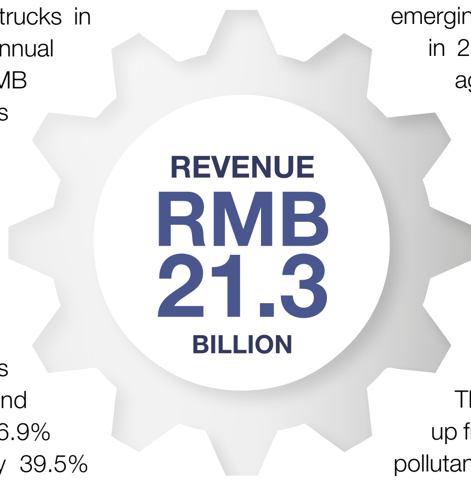


PRESIDENT'S STATEMENT

Dear Shareholders,

The year 2021 was a volatile period for the Chinese economy and commercial vehicle sales. China's GDP grew by 12.7% in the first half-year but slowed to growth of 8.1% for 2021. Strong truck sales in the first half of the year gave way to a 39.5% sales decline year-over-year in the second half of 2021.

There were a host of challenges during the year driven by external factors. Renewed COVID-19 restrictions, chip and component supply chain interruptions, coal shortage-driven power outages, a new emission standard implementation and lower construction activities all affected the economy and especially reduced demand for trucks in 2021. Despite these issues, our annual revenues increased by 3.3% to RMB 21.3 billion (US$ 3.4 billion), earnings per share was RMB 6.67 (US$ 1.06) and annual cash flow from operations remained positive.



According to statistics from the China Association of Automobile Manufacturers ("CAAM"), China's commercial vehicle unit sales declined by 36.5% in the second half of 2021 and was down by 6.9% for 2021. Truck sales decreased by 39.5% in the second half-year and by 8.7% for 2021. The Chinese truck market is the world's largest, having produced over 3 million vehicles in 2021 alone. Serving the needs of approximately 1.4 billion people in China, trucking is essential to meet the demands of the world's second largest economy and China's global supply chain commitments.

The implementation of the stricter National VI (a) emission standards in July substantially impacted truck demand. Bus and truck sales rose by 25.9% in the first half-year primarily due to a pre-buy of less expensive, less strict National V vehicles. However, a significant inventory of National V vehicles remained in the distribution channels after July resulting in much lower demand for National VI trucks in the second half of 2021. For 2021, truck sales decreased by 8.7% particularly with the heavy-duty segment 14.2% lower.

However, our engine sales posted positive growth in virtually every major market segment except for trucks for 2021. Strong bus and off-road engine unit sales partly offset lower truck sales and resulted in total unit sales rising by 6.2% in 2021.

Our annual bus sales grew by 53.8% as our market share grew in each size category, mainly due to the performance and increased acceptance of our emission-reducing National VI engines. Off-road engine unit sales were 32.7% ahead of last year, as both agriculture and industrial engines grew by over 25% and engine unit sales for marine & power generation applications surged by 53.3% in 2021 mainly due to transitory power shortages in China. Our sales of emerging new energy vehicle ("NEV") products in 2021 increased as compared to a year ago, and our range extender systems achieved greater market penetration.

Being among the first producers to meet new emission standards has been an anchor of our growth strategy. The National VI (a) emission standards were nationally implemented in July 2021 and it significantly reduces particulate matter and NOx emissions. These stricter standards are a major step up from prior systems to combat automotive pollutants and mitigate global climate change. We introduced 14 National VI engines for on-road markets as well as 10 Tier-4 engines for off-road markets in 2018, well before the national implementation periods for both new standards. In addition, in 2018 our model K08 engine passed the certification of the stricter National VI (b) standards which are scheduled for implementation in 2023. These accomplishments showcase our research and development capabilities and assure OEM customers of our technology prowess.

Our exhaust emission control systems joint venture, Eberspaecher Yuchai Exhaust Technology Co., Ltd. ("Eberspaecher Yuchai"), ramped up production in 2021. These systems are critical for our engines to reduce emissions for the National VI and Tier-4 standards. Eberspaecher Yuchai has a promising future with expanded production as National VI and Tier-4 are becoming the national emission standards across China.

PRESIDENT'S STATEMENT

Our new engines compliant with the stricter emission standards and our burgeoning NEV products are a result of our research and development investments. The bulk of these expenditures was to further improve the performance, quality and profitability of our large portfolio of National VI engines and our emerging Tier-4 compliant engines. With these engines well positioned in their respective markets, more resources will be focused to accelerate the development of our NEV technologies and for research and development with our strategic partners.

As we continue to build new advanced diesel and gas engines for today's markets, we also plan for the future with NEV products for electric vehicles and hydrogen-powered systems. New powertrain platforms have been under development since 2019 including next-generation hybrid powertrains, fuel cell systems, electric bridges, e-CVT and range extenders. Our 65kW and 100kW range extenders have already generated sales, and a more powerful 150kW and even higher extenders are under development. These products have the potential to improve the performance of NEVs and increase customer satisfaction.

OPERATING PROFIT
RMB 663.5 MILLION

Our promising NEV capabilities have led to new strategic initiatives with new partners to advance our NEV program development. A new joint venture with Beijing Xing Shun Da Bus Co., Ltd. will develop hydrogen energy applications for fuel cell powertrains, and our new energy powertrains will be used by Guangxi Sunlong Automobile Manufacturing to develop NEV vehicles. Another agreement with the Government of Nanning Municipality will extend our production capabilities for NEV technologies. We have already introduced China's first operating hydrogen combustion engine for commercial vehicles, model YCK05, which is undergoing durability testing. As more NEV products are launched in the future, more potential strategic partners will emerge to add to our technology development and enhance commercialization.

Our Eberspaecher Yuchai and MTU Yuchai Power joint ventures both realized higher sales and profitable operations during the year. MTU Yuchai Power, our joint venture with MTU Friedrichshafen GmbH, produces larger diesel engines starting from 1400 kW, cementing our position in the high horsepower product category. Eberspaecher Yuchai, a joint venture with Eberspaecher Exhaust Technology International GmbH, on the other hand, enables us to lower costs through local manufacturing of key after-treatment components.

In 2021, lower net profit mainly resulted from lower product gross profit. The unsettled truck market, a change in product mix, and National VI engines not attaining economy-of-scale production in the second half of the year all contributed to reduced net profit. We believe higher engine volumes of National VI engines are on the horizon which will enhance manufacturing efficiency.

As of December 31, 2021, our cash and bank balances were RMB 5.3 billion (US$ 843.3 million) even after paying a cash dividend of US$ 1.70 per ordinary share in July 2021. Dividends have been paid consistently for many years to reward our shareholders. Maintaining financial strength continue as our top priorities.

In summary, despite the challenges in 2021, we continued to generate profitable annual sales and strong cashflow in such a difficult market. Our National VI and Tier-4 engines are well positioned for the future and new and advanced technologies are being introduced to capture market share in specific markets for both on- and off-road applications. The impact of the National V truck inventory overhang will fade and the supply of chips and components has become more reliable for production. Additionally, while sales of our traditional powertrain products remain resilient, our NEV products are beginning to enter the marketplace with more products under development.

Weng Ming HOH
President
May 31, 2022

总裁致词

尊敬的股东们：

2021年是中国经济和商用车销售不平稳的一年。中国上半年GDP增长12.7%，但全年增速放缓至8.1%。上半年卡车销量强劲，而下半年销量则同比下降39.5%。

受外部因素影响，2021年出现一系列挑战。再度实行的COVID-19疫情管制、芯片和生产零部件件供应链中断、煤炭短缺导致的用电紧张、新排放标准的实施及建筑项目减少均对经济造成冲击，尤其导致2021年市场对卡车需求的减少。尽管存在这些困难，我们的年收入仍增长3.3%，达到人民币213亿元(34亿美元)，每股收益为人民币6.67元(1.06美元)，年度运营现金保持正流入。

根据中国汽车工业协会("中汽协")统计数据，2021年下半年中国商用车销量下降36.5%，全年下降6.9%。卡车销量在2021年下半年下降39.5%，全年下降8.7%。中国拥有全世界最大的卡车市场，仅在2021年卡车生产超过300万辆。对于满足世界第二大经济体——中国约14亿人口的需求，以及中国对全球供应链的承诺，卡车至关重要。

7月份实施的更为严格的国六(a)排放标准，相当程度上影响了卡车的市场需求。上半年，客车和卡车销量增长25.9%，主要是因为市场抢购价格和排放要求相对较低的国五车辆。7月份之后，分销渠道中积压大量国五车辆库存，导致2021年下半年国六卡车的市场需求大幅下降。2021全年，卡车销量下降8.7%，其中重型卡车销量下降14.2%。

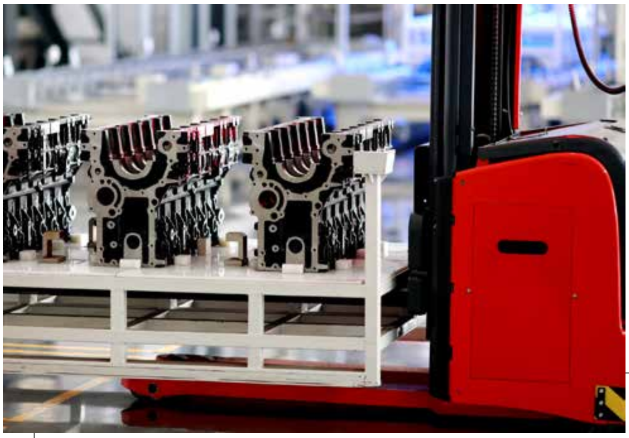
尽管如此，除卡车板块以外，2021年我们的发动机销售几乎在每个主要细分市场均实现正增长。客车和非道路用途发动机销量强劲，部分抵消了卡车销量疲软带来的消极影响，实现全年总销量增长6.2%。

随着我们在各个车型板块的市场份额提高，2021年我们的客车年销量增长53.8%，主要归因于我们的国六减排发动机的优良性能和客户接受度的提高。非道路用途发动机销量同比增长32.7%，农用和工业用发动机销量增长均超过25%，同时，受中国暂时性的电力短缺影响，船用和发电用途发动机销量激增53.3%。我们的新能源汽车产品销量同比增长，增程器动力系统实现了更大的市场渗透。

除卡车板块以外，2021年我们的发动机销售几乎在每个主要细分市场均实现正增长。客车和非道路用途发动机销量强劲，部分抵消了卡车销量疲软带来的消极影响，实现全年总销量增长6.2%。

成为行业中首批满足新排放标准的生产企业是我们一直以来的战略增长支柱。国六(a)排放标准于2021年7月在全国范围内实施，大大减少了颗粒物和氮氧化物的排放。相较之前的排放标准，更为严格的国六(a)排放标准在防治汽车污染物及减缓全球气候变化方面迈出了重要一步。我们于2018年推出了14款道路用途的国六发动机和10款非道路四阶段发动机，远远提前于此两项新标准的全国实施期限。此外，我们的K08型发动机于2018年通过了更为严格的国六(b)标准认证，该标准计划于2023年实施。这些成绩展示了我们的研发能力，并向原始设备制造商客户保证了我们的技术实力。

我们的排气控制系统合资企业——埃贝赫玉柴排放处理系统有限公司("埃贝赫玉柴")于2021年加大了产量。这些排放处理系统对减少发动机排放，满足国六和非道路四阶段标准至关重要。随着国六和非道路四阶段排放标准在中国范围内实施，埃贝赫玉柴生产规模扩大，前景可期。



AGV are widely used for logistics support, such as sending engine components to the lines, or collection after machining.

总裁致词

我们的发动机产品符合减排标准，新能源汽车产品迅速发展，是我们研发投资的成果见证。我们大部分的研发支出用于国六和非道路四阶段发动机产品性能、质量及盈利能力的进一步提升。凭借这些产品在各自市场的良好定位，我们将集中更多资源加快新能源汽车产品技术的开发，以及与战略伙伴的共同研发。

我们将继续生产适用于当今市场需求的新型先进柴油和燃气发动机，与此同时，我们未来计划推出针对电动汽车和氢动力系统的新能源汽车产品。自2019年以来，我们一直在开发新的动力系统平台，包括新一代混合动力系统、燃料电池系统、电桥、e-CVT及增程器。我们的65千瓦和100千瓦增程器已经投放市场，150千瓦甚至更高功率的增程器正在开发中。这些产品将提高新能源汽车的性能，提升客户满意度。

我们雄厚的新能源研发实力已促成与新合作伙伴达成战略举措，助力新能源汽车产品的开发。我们与北京市兴顺达客运有限责任公司成立的合资企业将开发氢能在燃料电池动力系统的应用。我们的新能源动力系统将被广西申龙用于新能源整车开发。与南宁市政府签订的另一项协议将扩大我们在新能源汽车技术方面的生产能力。我们推出了中国首台商用车燃氢发动机YCK05，目前正在进行耐久性测试。随着未来更多新能源汽车产品的推出，更多潜在战略伙伴将加入到我们的技术开发，提高商业化水平。

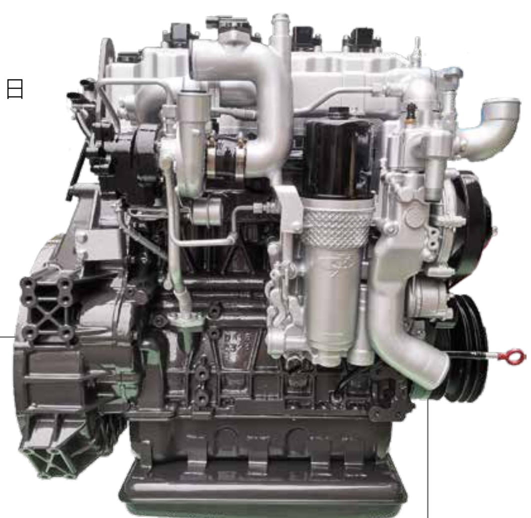
我们的合资企业，埃贝赫玉柴和玉柴安特优动力有限公司（“玉柴安特优”）在这一年均实现了销售额和利润的增长。玉柴安特优是我们与德国 MTU Friedrichshafen GmbH 的合资企业，主营及生产1,400千瓦以上的大型柴油发动机，巩固我们在大马力产品中的地位。另一方面，我们与德国埃贝赫排气技术国际有限公司的合资企业——埃贝赫玉柴，通过在本地生产关键后处理系统零件来降低产品成本。

2021年净利润下降主要是由于产品毛利下降。卡车市场的波动、产品结构发生变化、国六发动机下半年未能实现规模生产，均导致了净利润下降。我们相信，随着国六发动机产量契机的来临，制造效率将会提高。

在2021年7月支付每股1.70美元的现金股息后，截至2021年12月31日，我们的现金和银行存款为人民币53亿元（8.43亿美元）。多年来，我们一直坚持派发股息，以回报我们的股东。保持财务实力仍然是我们的首要任务。

尽管2021年挑战重重，我们仍取得了年度销售盈利，保持了强劲的现金流。我们的国六和非道路四阶段发动机已经为未来做好了充分的准备，同时，我们引进先进技术，藉以占领道路及非道路用途发动机特定领域的市场份额。国五卡车库存过剩的影响会逐渐消失，芯片和生产零部件的供应也在逐步稳定扩大生产。另外，尽管我们的传统动力系统产品销售仍具韧性，但我们的新能源汽车产品已经开始推出市场，更多产品也正在开发进行中。

何永明
总裁
2022年5月31日



The YCK05N Hydrogen Engine is the first operating hydrogen engine for China's commercial vehicle market. It adopts a number of advanced special technologies such as high-pressure multi-point inlet air injection technology, high-efficiency low-inertia turbocharging technology, high-efficiency lean burn combustion technology, etc. This successful achievement is another Yuchai hydrogen technology milestone in the development of hydrogen energy as an environmentally friendly alternative propulsion system, following the introduction of Yuchai's hydrogen fuel cell technology.

CORPORATE BACKGROUND

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

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

Found in 1951, Yuchai has established a reputable brand name, strong research and development team and significant market share in China with high-quality products and reliable after-sales support. In 2021, Yuchai sold 456,791 engines and is recognized as a leading manufacturer and distributor of engines in China.

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

公司背景

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

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

创建于1951年，玉柴凭借高质量的产品和可靠的售后支持，在中国建立了声誉良好的品牌、强大的研发团队和可观的市场份额。2021年，玉柴销售发动机456,791台，被认为是中国领先的发动机制造商和销售商之一。

A worker was operating CNC equipment.

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

OUR SERVICE PRESENCE

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

51 regional offices
51 个玉柴办事处

• 4,058 authorized customer service stations
4,058 家玉柴授权服务站

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of February 28, 2022, there were nine members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck, Stephen Ho Kiam Kong and Hoh Weng Ming as its nominees. Messrs. Li Hanyang and Wu Qiwei are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming [1][4]	President and Director	2011
GAN Khai Choon [1][4]	Director	1995
KWEK Leng Peck [1][2]	Director	1994
STEPHEN HO Kiam Kong	Director	2020
LI Hanyang [1]	Director	2021
WU Qiwei [1]	Director	2012
NEO Poh Kiat [1][2][3]	Director	2005
HO Raymond Chi-Keung [2][3]	Director	2004
XIE Tao [1][3]	Director	2019
LOO Choon Sen [1]	Chief Financial Officer	2021
Conyers Corporate Services (Bermuda) Limited [5]	Secretary	2015

Mr. Yan Ping retired as Director at the Annual General Meeting of the Company on July 23, 2021.

Dr. Han Yiyong resigned from his positon as Director of the Company effective April 30, 2021.

Dr. Phung Khong Fock Thomas resigned as Chief Financial Officer of the Company with effect from June 1, 2021.

(1) Also a Director of Yuchai.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Also a Director of HLGE.
(5) Codan Services Limited was renamed to Conyers Corporate Services (Bermuda) Limited with effect from April 1, 2017.

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

Dato' Gan Khai Choon is a Director of the Company, Yuchai, Grace Star, Venture Delta and Millennium & Copthorne Hotels Management (Shanghai) Limited. He is also the Non-Executive Chairman of HLGE and Beijing Fortune Hotel Co., Ltd., as well as the Managing Director of Hong Leong International (Hong Kong) Limited and Executive Director of Hong Leong Hotel Development Limited. Dato' Gan has extensive experience in the banking, real estate investment and development sectors and has been involved in a number of international projects for the Hong Leong Group of companies, which include the management and development of the Grand Hyatt Taipei and the Beijing Riviera. He holds a Bachelor of Arts Degree (Honors) in Economics from the University of Malaya. Dato' Gan is related to Mr. Kwek Leng Peck.

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

Mr. Stephen Ho Kiam Kong is a Director of the Company, Grace Star, Venture Delta. He is also the Chief Executive Officer and a Director of Hong Leong Asia. He was previously the Group Chief Financial Officer for Wilmar International Limited, an agribusiness group, for more than eight years. Before this, he was with Philips Electronics for 12 years and his last position was the Senior Vice President and Chief Financial Officer of Philips Electronics China Group, Greater China operation based in Shanghai. Prior to his corporate roles, Mr. Ho held regional managerial positions in business development, risk management and trading functions with several large international banks based in Singapore. Mr. Ho was awarded the Best Chief Financial Officer for the Year 2018 for large-cap companies in the Singapore Corporate Awards. During his tenure in Shanghai, Mr. Ho served as the Chairman of the Shanghai Board of the European Chamber of Commerce of China and received the Magnolia Silver Award from the Shanghai Municipality Government. Mr. Ho holds a Bachelor of Commerce and Administration Degree from Victoria University of Wellington, New Zealand and had completed the Advanced Management Program at the Harvard Business School, Boston, United States.

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

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

BOARD OF DIRECTORS

Mr. Neo Poh Kiat is a Director of the Company and Yuchai. Between August 1976 and January 2005, he held various senior managerial positions with companies in the DBS Bank group and United Overseas Bank Ltd. Mr. Neo is currently also a director of Cambodia Post Bank Plc, Fullerton Credit (Sichuan) Ltd., Fullerton Credit (Chongqing) Ltd., Fullerton Credit (Hubei) Ltd., Fullerton Credit (Yunnan) Ltd. and CapitaLand China Trust Management Limited (formerly known as CapitaLand Retail China Trust Management Limited). He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an Independent Director on April 30, 2013. Mr. Ho is a practicing arbitrator. From 2008 to 2011, he was the Secretary General of the Law Society of Hong Kong and prior to joining the Law Society secretariat in 2006, he had practiced law as a solicitor for 23 years with a wide range of experience in transactional and contentious matters. Mr. Ho holds Bachelor of Laws and Master of Social Sciences degrees from the University of Hong Kong as well as a Master of Laws degree from the University of London. He is a Fellow of the U.K. Chartered Institute of Arbitrators and a Member of Silicon Valley Arbitration and Mediation Center. Mr. Ho is currently listed on the Panel of Arbitrators of Hong Kong International Arbitration Centre. He was admitted as a Solicitor in Hong Kong and England & Wales; and was a Barrister and Solicitor in the Australian Capital Territory and the Province of British Columbia, Canada; and is currently a non-practicing member of the Law Societies in these jurisdictions. Mr. Ho is also a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Xie Tao is a Director of the Company and Yuchai. He is also an Independent Director of Zhengjiang Wanfeng Auto Wheel Co., Ltd and Gongniu Group Co., Ltd, a listed company in China, as well as a Non-independent Non-executive Director of Shanghai Vico Precision Mold & Plastics Co., Ltd. Mr. Xie has more than 30 years of experience in corporate management and financial advisory, including mergers and acquisitions, corporate finance and transaction services. He has spent the major part of his career with PricewaterhouseCoopers (PwC) for nearly 23 years as a lead partner of the Advisory practice in PwC China and as the Senior Partner of Corporate Finance serving on the Executive Board of the China, Singapore and Hong Kong member firms of PwC. Between 2012 and 2014, he was a partner at Ernst & Young, then Deloitte, as a leader of transaction services and corporate finance business. He was also a financial advisor for the 2008 Beijing Olympic Games. Between 2010 and 2017, Mr. Xie held several executive and non-executive management roles of private and public companies in China and abroad. Mr. Xie holds a Bachelor's degree in Physics from Beijing University in China and was a member of the UK Chartered Association of Certified Accountants. Our Board of Directors has determined that Mr. Xie is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Intelligent display screen of cylinder head processing workshop.

EXECUTIVE OFFICER OF THE COMPANY

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

The YCY24 engine compliant with China National VI emission standards is for use in light-duty trucks, light-duty buses and pick-up trucks. The engine is built with aluminum alloy casting and provides a lighter dry weight on installation. YCY24 has a displacement volume of 2.36 liter and a maximum power output of 150 PS with a maximum torque of 380 N-m.

Yuchai's Office Building in Yunlin.

CORPORATE GOVERNANCE

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

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

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

CORPORATE GOVERNANCE

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Audit Committee	
• Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.	• Our audit committee meets the requirements of Rule 10A-3 under the Exchange Act.
• The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.	• Our Audit Committee currently consists of three members, all of whom meet the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.
• The audit committee must have a written charter that addresses the committee's purpose and responsibilities.	• Our Audit Committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of U.S. companies.
At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.	• Our Audit Committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of U.S. companies.

Cylinder head finishing line.

CORPORATE GOVERNANCE

Standard for U.S. Domestic Listed Companies	China Yuchai International Limited's Practice
Audit Committee	
The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.	• Our Audit Committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
• Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.	• The Board of Directors has identified Mr. Xie Tao as our Audit Committee Financial Expert.
• Each listed company must have an internal audit function.	• We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, reviews significant audit issues and monitors corrective actions taken by management.
Compensation Committee	
• Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.	• Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
• The committee must have a written charter that addresses its purpose and responsibilities.	
• These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.	• Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.

CORPORATE GOVERNANCE

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

FINANCIAL REPORT

CONTENTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (the "Company") as of December 31, 2021 and 2020, 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, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, 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 22, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matter

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

Capitalization of development costs

Description of the Matter	Prior to the financial year ended December 31, 2020, the Group has commenced the process to research and develop new engine models to comply with the new engine emission standards as promulgated by the People's Republic of China (the "Development Projects"). The efforts to develop such new engines continued during the financial year ended December 31, 2021. The Group has determined that the Development Projects met the capitalization criteria as stated in Note 2.3 (l) to the consolidated financial statements and has capitalized RMB 992.3 million (US$ 157.0 million) of development costs as of December 31, 2021, as disclosed in Note 12 to the consolidated financial statements. Auditing management's recognition of capitalized development costs was complex because the capitalization of development costs requires the application of management judgment to determine, amongst others, what continues to constitute development activities and when a Development Project should cease further capitalization of development costs. Management judgment is also required to ascertain the nature of expenses that qualify for capitalization.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested controls over the authorization, approval and recording of expenses and controls over monitoring of the status of the on-going Development Projects. Our audit procedures included, among others, evaluating management's judgment related to the determination of the research and development phases, and the determination of which development costs can be capitalized by conducting inquiries of the engineers in the Research and Development ("R&D") department to understand the progress of the Development Projects. In addition, for a sample of Development Projects, we evaluated the status of each project, and the costs capitalized by comparing the supporting documents to the Company's capitalization criteria. We evaluated management's assessment that the Development Projects continued to be in-progress by inspecting the testers' feedback and responses from the R&D department on a sample basis.

Ernst & Young LLP
We have served as the Company's auditor since 2009
Singapore
April 22, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, China Yuchai International Limited (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of December 31, 2021 and 2020, 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, 2021, and the related notes and our report dated April 22, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP
Singapore
April 22, 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Revenue	6	18,016,085	20,581,170	21,265,930	3,363,691
Cost of sales	7.1	(14,910,244)	(17,391,599)	(18,313,817)	(2,896,747)
Gross profit		3,105,841	3,189,571	2,952,113	466,944
Other operating income	7.2(a)	347,161	400,269	326,171	51,591
Other operating expenses	7.2(b)	(8,675)	(21,322)	(9,982)	(1,579)
Research and development expenses	7.1	(492,204)	(626,478)	(848,812)	(134,259)
Selling, general and administrative expenses	7.1	(1,806,042)	(1,760,036)	(1,755,957)	(277,745)
Operating profit		1,146,081	1,182,004	663,533	104,952
Finance costs	7.3	(131,796)	(151,170)	(115,928)	(18,337)
Share of (loss)/profit of associates, net of tax		(181)	452	90	14
Share of profit/(loss) of joint ventures, net of tax	5	19,215	(59,422)	(95,985)	(15,182)
Profit before tax		1,033,319	971,864	451,710	71,447
Income tax expense	8	(172,619)	(192,538)	(43,816)	(6,930)
Profit for the year		860,700	779,326	407,894	64,517
Attributable to:					
Equity holders of the Company		604,914	548,903	272,673	43,129
Non-controlling interests		255,786	230,423	135,221	21,388
		860,700	779,326	407,894	64,517
Earnings per share (dollar per share)					
- Basic	9	14.81	13.43	6.67	1.06
- Diluted	9	14.81	13.43	6.67	1.06

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Profit for the year	860,700	779,326	407,894	64,517
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods, net of tax:				
Foreign currency translation	8,467	(63,864)	(36,685)	(5,802)
Net fair value change on debt instruments at fair value through other comprehensive income	3,050	(2,752)	63,890	10,106
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	11,517	(66,616)	27,205	4,304
Total comprehensive income for the year, net of tax	872,217	712,710	435,099	68,821
Attributable to:				
Equity holders of the Company	610,369	492,966	293,240	46,383
Non-controlling interests	261,848	219,744	141,859	22,438
	872,217	712,710	435,099	68,821

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	10	4,258,760	4,197,909	663,995
Investment property	11	5,829	5,086	804
Intangible assets	12	1,483,968	1,758,582	278,160
Investment in associates		2,393	2,467	390
Investment in joint ventures	5	227,120	151,095	23,899
Deferred tax assets	8	400,198	398,174	62,980
Long-term bank deposits	16	140,000	110,000	17,399
Right-of-use assets	17	384,001	344,814	54,540
Capitalized contract cost	6.2	127,704	147,499	23,330
		7,029,973	7,115,626	1,125,497
Current assets				
Inventories	13	4,471,195	5,208,636	823,864
Trade and other receivables	15	8,459,088	7,538,096	1,192,322
Other current assets	14	23,164	16,773	2,653
Cash and cash equivalents	16	5,877,647	4,788,219	757,366
Short-term bank deposits	16	258,756	357,335	56,521
Restricted cash	16	171,135	76,001	12,021
		19,260,985	17,985,060	2,844,747
Total assets		26,290,958	25,100,686	3,970,244

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	Note	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	18	2,081,138	2,081,138	329,179
Statutory reserves	20	307,165	309,237	48,913
Capital reserves	20	30,704	30,704	4,857
Retained earnings		6,756,976	6,578,865	1,040,597
Other components of equity	20	(161,359)	(140,792)	(22,269)
Equity attributable to equity holders of the Company		9,014,624	8,859,152	1,401,277
Non-controlling interests		2,818,086	2,756,192	435,955
Total equity		11,832,710	11,615,344	1,837,232
Non-current liabilities				
Loans and borrowings	26	500,000	100,000	15,817
Lease liabilities	25	17,023	13,406	2,120
Contract liabilities	24	67,269	69,173	10,941
Deferred tax liabilities	8	112,456	65,544	10,367
Deferred grants	27	518,142	411,658	65,113
Other payables	22	191,563	188,725	29,851
		1,406,453	848,506	134,209
Current liabilities				
Trade and other payables	22	10,110,968	9,639,115	1,524,646
Loans and borrowings	26	1,730,000	2,103,000	332,637
Lease liabilities	25	22,755	27,125	4,290
Contract liabilities	24	868,193	573,259	90,674
Provision for taxation		50,801	41,309	6,534
Provision	23	269,078	253,028	40,022
		13,051,795	12,636,836	1,998,803
Total liabilities		14,458,248	13,485,342	2,133,012
Total equity and liabilities		26,290,958	25,100,686	3,970,244

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2019	2,081,138	302,404	30,704	6,092,549	(39,215)	19,758	(79,948)	(11,541)	8,395,849	2,751,705	11,147,554
Profit for the year	–	–	–	604,914	–	–	–	–	604,914	255,786	860,700
Other comprehensive income for the year, net of tax	–	–	–	–	3,124	–	2,331	–	5,455	6,062	11,517
Total comprehensive income for the year	–	–	–	604,914	3,124	–	2,331	–	610,369	261,848	872,217
Contributions by and distributions to owners											
Dividends declared and paid (US$ 0.85 per share) (Note 19)	–	–	–	(238,758)	–	–	–	–	(238,758)	–	(238,758)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(207,514)	(207,514)
Changes in ownership interests in subsidiary											
Acquisition of non-controlling interests	–	–	–	–	–	–	–	69	69	(183)	(114)
Other											
Transfer to statutory reserves	–	1,903	–	(1,903)	–	–	–	–	–	–	–
At December 31, 2019	2,081,138	304,307	30,704	6,456,802	(36,091)	19,758	(77,617)	(11,472)	8,767,529	2,805,856	11,573,385

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

	Attributable to the equity holders of the company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2021	2,081,138	307,165	30,704	6,756,976	(89,925)	19,758	(79,720)	(11,472)	9,014,624	2,818,086	11,832,710
Profit for the year	–	–	–	272,673	–	–	–	–	272,673	135,221	407,894
Other comprehensive income for the year, net of tax	–	–	–	–	(28,251)	–	48,818	–	20,567	6,638	27,205
Total comprehensive income for the year	–	–	–	272,673	(28,251)	–	48,818	–	293,240	141,859	435,099
Contributions by and distributions to owners											
Dividends declared and paid (US$ 1.70 per share) (Note 19)	–	–	–	(448,712)	–	–	–	–	(448,712)	–	(448,712)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(203,753)	(203,753)
Other											
Transfer to statutory reserves	–	2,072	–	(2,072)	–	–	–	–	–	–	–
At December 31, 2021	2,081,138	309,237	30,704	6,578,865	(118,176)	19,758	(30,902)	(11,472)	8,859,152	2,756,192	11,615,344
US$'000	329,179	48,913	4,857	1,040,597	(18,692)	3,125	(4,888)	(1,814)	1,401,277	435,955	1,837,232

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Operating activities				
Profit before tax	1,033,319	971,864	451,710	71,447
Adjustments:				
Amortization of intangible asset	1,012	1,012	38,957	6,162
Bad debt written off/(recovered)	–	40	(5)	(1)
Depreciation of:				
- investment property	380	376	355	56
- property, plant and equipment	422,859	450,092	492,826	77,952
- right-of-use assets	40,958	43,127	41,458	6,558
Dividend income from quoted equity securities	(959)	(166)	(168)	(26)
Exchange (gain)/loss	(4,679)	(1,827)	3,271	518
Fair value loss/(gain) on foreign exchange forward contract	5,529	(999)	–	–
Fair value (gain)/loss on quoted equity securities	(1,118)	1,196	(138)	(22)
Finance costs	131,796	151,170	115,928	18,337
(Gain)/loss on disposal of:				
- property, plant and equipment	645	4,183	(1,224)	(194)
- quoted equity securities	(11,528)	(874)	(5,416)	(857)
- right-of-use assets	(9,237)	(2,574)	(14,714)	(2,327)
Government grants	(122,371)	(209,793)	(152,932)	(24,190)
Interest income	(177,261)	(166,970)	(132,083)	(20,892)
Impairment losses on:				
- development property	3,039	–	–	–
- property, plant and equipment	3,950	3,920	7,227	1,143
Impairment losses /(reversal of impairment losses) on trade receivables	32,340	(13,849)	(7,987)	(1,263)
Impairment losses /(reversal of impairment losses) on non-trade receivables	–	638	(538)	(85)
Impairment losses/(reversal of write-down) of inventories, net	17,022	27,978	(9,010)	(1,425)
Inventories written off	–	–	10,085	1,595
Property, plant and equipment written off	4,137	7,417	1,134	179
Provision for onerous contract, net	2,316	11,323	(8,810)	(1,394)
Share of (profit)/loss of associates and joint ventures, net of tax	(19,034)	58,970	95,895	15,168
Write-back of trade and other payables	(2,087)	(1,052)	–	–
Profit before tax after adjustments	1,351,028	1,335,202	925,821	146,439
Changes in working capital				
Increase in inventories	(314,904)	(1,687,639)	(740,835)	(117,179)
(Increase)/decrease in trade and other receivables and capitalized contract cost	(514,163)	(238,571)	1,105,093	174,796
Increase/(decrease) in trade and other payables and contract liabilities	1,294,214	2,241,327	(614,601)	(97,213)
Increase in development properties	(71)	(75)	(202)	(31)
Cash flows from operating activities	1,816,104	1,650,244	675,276	106,812
Income taxes paid	(233,088)	(234,876)	(170,720)	(27,003)
Net cash flows from operating activities	1,583,016	1,415,368	504,556	79,809

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

CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Investing activities				
Payment for trademarks usage fee	(169,811)	–	–	–
Additional investment in subsidiaries	(114)	–	–	–
Additional investment in a joint ventures	(41,160)	–	(17,640)	(2,790)
Development costs	(345,128)	(500,147)	(287,480)	(45,472)
Dividend received from:				
- joint ventures	821	–	–	–
- quoted equity securities	959	166	135	21
Interest received	173,745	171,556	125,004	19,772
Proceeds from disposal of:				
- property, plant and equipment	1,178	2,385	405	64
- quoted equity securities	16,429	1,354	6,485	1,026
- right-of-use assets	11,008	5,772	34,123	5,397
Proceeds from government grants	191,491	123,178	51,862	8,203
Purchase of property, plant and equipment	(749,087)	(584,676)	(572,047)	(90,482)
Tax and relevant expenses in relation to disposal of subsidiary [(i)]	(38,887)	–	–	–
Withdrawal/(placement) of fixed deposits with banks, net	138,079	(5,341)	(79,695)	(12,606)
Net cash flows used in investing activities	(810,477)	(785,753)	(738,848)	(116,867)
Financing activities				
Dividends paid to:				
- equity holders of the company	(238,758)	(245,871)	(448,712)	(70,974)
- non-controlling interests	(203,167)	(205,525)	(223,917)	(35,418)
Interest paid and discounting on bills receivable	(139,118)	(148,793)	(115,813)	(18,318)
Payment of principal portion of lease liabilities	(48,365)	(35,363)	(23,121)	(3,657)
Proceeds from borrowings	2,040,752	2,230,000	1,938,920	306,684
Repayment of borrowings	(2,000,773)	(2,056,280)	(1,965,920)	(310,955)
Net cash flows used in financing activities	(589,429)	(461,832)	(838,563)	(132,638)
Net increase/(decrease) in cash and cash equivalents	183,110	167,783	(1,072,855)	(169,696)
Cash and cash equivalents at January 1	5,559,890	5,753,268	5,877,647	929,684
Effect of exchange rate changes on balances in foreign currencies	10,268	(43,404)	(16,573)	(2,622)
Cash and cash equivalents at December 31	5,753,268	5,877,647	4,788,219	757,366

Note:

(i) This relates to retention money deposited in a joint signatory account with the buyer of LKNII for payment of tax payable for the disposal of LKNII in 2018, which had been settled in 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2021 were authorized for issue in accordance with a resolution of the directors on April 22, 2022.

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

1.2 Investment in Guangxi Yuchai Machinery Company Limited

The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited ("Yuchai"), a Sino-foreign joint stock company which manufactures, assembles and sells diesel engines in the People's Republic of China (the "PRC").

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

As of December 31, 2021, Yuchai has 11 (2020: nine) direct and 33 (2020: 33) indirectly owned subsidiaries, four (2020: four) joint ventures and one (2020: one) associate. Guangxi Yuchai Machinery Monopoly Development Co., Ltd. ("YMMC") and Guangxi Yuchai Accessories Manufacturing Company Limited ("GYAMC") are the two most significant subsidiaries of Yuchai. YMMC has 29 (2020: 29) wholly-owned subsidiaries (collectively "YMMC Group") located at various provinces in the PRC. The principal business of YMMC Group are trading and distribution of components of diesel engines and automobiles. GYAMC has two wholly-owned subsidiaries (collectively "GYAMC Group"). The principal business of GYAMC Group are sales and manufacturing of components of diesel engines. In December 2021, Yuchai incorporated a new wholly owned subsidiary, Guangxi Yuchai Deyou Engine Systems Co.,Ltd to succeed the trading business previously conducted by another wholly owned subsidiary, Guangxi Yuchai Deyou Engine Co., Ltd ("YDEC"). YDEC will take over the operations of Yuchai's marine and power generation unit under the new name of Guangxi Yuchai Marine and Genset Power Co., Ltd.

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

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

1.3 Investment in HL Global Enterprises Limited

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION (cont'd)

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

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

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

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

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

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

As of December 31, 2020 and 2021, the Group's shareholding interest in HLGE remains at 50.2%, net of the ordinary shares held by the Trustee under the Trust.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

Translation of amounts from Renminbi to the United States Dollar ("US Dollar") is solely for the convenience of the reader. Translation of amounts from Renminbi to US Dollar has been made at the rate of RMB 6.3222 = US$ 1.00, the rate quoted by the People's Bank of China at the close of business on February 28, 2022 and all values are rounded to the nearest thousand ("US$'000"), except when otherwise indicated.

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

(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

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 within "Share of profit/(loss) of associates and joint ventures, net of tax" in the statement of profit or loss.

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

(c) Current versus non-current classification

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

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

All other assets are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

A liability is current when:

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

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

The Group classifies all other liabilities as non-current.

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

(d) Fair value measurement

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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

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

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

- Quoted equity securities — Note 33
- Bills receivable — Note 33
- Foreign exchange forward contract — Note 33

(e) Foreign currency translation

The Company's functional currency is US Dollar. The Group's consolidated financial statements are presented in Renminbi, which is also the functional currency of Yuchai, the largest operating segment of the Group.

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

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Transactions and balances (cont'd)

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).

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

Group companies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue from Contracts with Customers

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

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

Sale of engines

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

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

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probably that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of engines provide customers with volume rebates. The volume rebates give rise to variable consideration.

Volume rebates

The Group provides certain customers with retrospective volume rebates when the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable considerations for the expected future rebates, the Group applies the most likely amount method for each individual contract. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized in "Trade and other payables" (Note 22) for the expected future rebates (i.e., the amount not included in the transaction price).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Sale of engines (cont'd)

(i) Variable consideration (cont'd)

Sales Returns

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

(ii) Significant financing component

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

Warranty obligations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Sale of completed development properties

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

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

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

Rendering of services

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

Contract balances

Trade receivables

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

Contract liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Right of return assets

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

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return and volume rebates. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Costs to fulfil a contract

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

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

(g) Government grants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes

Current income tax

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

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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.

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

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

Sales tax

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

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- When receivables and payables are stated with the amount of sales tax included

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

(j) Property, plant and equipment

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

The Group capitalizes interest with respect to major assets under installation or construction based on the weighted average cost of the Group's general borrowings and actual interest incurred for specific borrowings. Repairs and maintenance of a routine nature are expensed while those that extend the life of assets are capitalized.

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

(k) Investment properties

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

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

Investment properties are derecognized either when they have been disposed of (i.e., at the date recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of de-recognition. In determining the amount of consideration from the de-recognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

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

(l) Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

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

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

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

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

Research and development costs

Research costs are expensed as incurred.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

Goodwill

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

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

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

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

(m) Financial instruments – Initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Initial recognition and measurement (cont'd)

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

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

Subsequent measurement

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

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

<u>Financial assets at amortized cost (debt instruments)</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets at fair value through OCI (debt instruments)

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

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

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

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Impairment

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Impairment (cont'd)

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

<u>Financial liabilities at fair value through profit or loss</u>

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement (cont'd)

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

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

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

Financial liabilities at amortized cost

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(n) Inventories

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.

(o) Impairment of non-financial assets

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

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

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

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

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

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

(p) Cash and cash equivalents

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

(q) Leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Group as a lessee

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

(i) Right-of-use assets

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

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

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

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

(ii) Lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Group as a lessee (cont'd)

(ii) Lease liabilities (cont'd)

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

(iii) Short-term leases

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

Group as a lessor

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

(r) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(s) Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs relating to the assurance-type warranties, to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 3 to 36 months) or mileage (generally 5,000 to 300,000 kilometers), whichever materializes first. For other applications engines, warranties extend for a duration of generally 3 to 36 months or running hours of 300 to 4,000 hours, whichever materializes first. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

Onerous contract

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

(t) Pensions and other post-employment benefits

Defined contribution plans

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

Employee leave entitlement

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

(u) Share-based payments

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

Equity-settled transactions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (cont'd)

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

Equity-settled transactions (cont'd)

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

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

(v) Development properties

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

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

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

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

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

(w) Derivative financial instruments

Initial recognition and subsequent measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group.

Covid-19-Related Rent Concessions beyond June 30, 2021 *Amendments to IFRS 16*

On May 28, 2020, the IASB issued *Covid-19-Related Rent Concessions—amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.5 Standards issued but not yet effective

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations* - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Group.

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates – *Amendments to IAS 8*

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Disclosure of Accounting Policies – *Amendments to IAS 1 and IFRS Practice Statement 2 (cont'd)*

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Capital management (Note 32)
- Financial risk management objectives and policies (Note 31)
- Sensitivity analyses disclosures (Note 12 and 31)

3.1 Judgments

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

Revenue from Contracts with Customers

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

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

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

Derecognition of bills receivable

The Group sell certain 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 derecognition of bills receivable when discounted, the management believes that the contractual right to receive the cash flows from the asset have terminated with the Group, but transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and 2021 are RMB 400.2 million and RMB 398.2 million (US$ 63.0 million) respectively, and primarily relate to unutilized capital allowances and investment allowances, as well as other unrecognized temporary differences relating to asset impairment and deferred grants. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 159.2 million (US$ 25.2 million) for year ended December 31, 2021 (2020: RMB 157.6 million).

Development costs

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

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 ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, development costs and trademarks recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2020	31.12.2021
		%	%
Guangxi Yuchai Machinery 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
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

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

	31.12.2019	31.12.2020	31.12.2021
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Accumulated balances of material NCI				
Yuchai	2,603,227	2,624,933	2,574,669	407,243
Profit allocated to material NCI				
Yuchai	254,284	229,231	153,500	24,280
Dividends paid to material NCI				
Yuchai	207,514	207,514	203,753	32,228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (cont'd)

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

	31.12.2019 Yuchai RMB'000
Summarized statement of comprehensive income	
Revenue	17,980,304
Profit after tax	825,807
Total comprehensive income for the year	828,861
Attributable to NCI	254,284
Summarized statement of cash flows	
Operating	1,632,557
Investing	(858,904)
Financing	(656,576)
Net increase in cash and cash equivalents	117,077

	31.12.2020 Yuchai RMB'000
Summarized statement of financial position	
Current assets	18,395,754
Non-current assets, excluding goodwill	6,722,233
Goodwill	212,636
Current liabilities	(13,035,680)
Non-current liabilities	(1,293,007)
Net assets	11,001,936
Total equity	11,001,936
Attributable to NCI	2,624,933
Summarized statement of comprehensive income	
Revenue	20,557,660
Profit after tax	829,042
Total comprehensive income for the year	826,214
Attributable to NCI	229,231
Summarized statement of cash flows	
Operating	1,476,034
Investing	(794,291)
Financing	(505,997)
Net increase in cash and cash equivalents	175,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (cont'd)

	31.12.2021 Yuchai	
	RMB'000	**US$'000**
Summarized statement of financial position		
Current assets	17,067,747	2,699,653
Non-current assets, excluding goodwill	6,812,500	1,077,552
Goodwill	212,636	33,633
Current liabilities	(12,620,344)	(1,996,195)
Non-current liabilities	(781,986)	(123,689)
Net assets	10,690,553	1,690,954
Total equity	10,690,553	1,690,954
Attributable to NCI	2,574,669	407,243
Summarized statement of comprehensive income		
Revenue	21,254,134	3,361,826
Profit after tax	443,499	70,149
Total comprehensive income for the year	506,769	80,157
Attributable to NCI	153,500	24,280
Summarized statement of cash flows		
Operating	588,727	93,121
Investing	(674,686)	(106,717)
Financing	(1,002,764)	(158,610)
Net increase in cash and cash equivalents	(1,088,723)	(172,206)

Significant restrictions

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

At the end of the reporting period, cash and cash equivalents of RMB 4,200.5 million (US$ 664.4 million) (2020: RMB 5,289.2 million) held in the PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

Acquisition of ownership in subsidiaries, without change in control in 2019

In February 2019, Yuchai acquired 7.5% of equity interest in YC Europe Co., Ltd. ("YC Europe") from non-controlling interest for a cash consideration of RMB 0.1 million. As a result, Yuchai's shareholding in YC Europe increased from 67.5% to 75.0%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Share of profit/(loss) of joint ventures, net of tax:				
Y & C Engine Co., Ltd	28,484	(44,016)	(125,853)	(19,907)
MTU Yuchai Power Co., Ltd.	594	3,238	28,037	4,435
Eberspaecher Yuchai Exhaust Technology Co., Ltd	(9,366)	(19,157)	1,377	218
Other joint ventures	(497)	513	454	72
	19,215	(59,422)	(95,985)	(15,182)

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Carrying amount of investments:			
Y & C Engine Co., Ltd	145,599	22,821	3,610
MTU Yuchai Power Co., Ltd	62,217	89,481	14,153
Eberspaecher Yuchai Exhaust Technology Co., Ltd	12,638	31,655	5,007
Other joint ventures	6,666	7,138	1,129
	227,120	151,095	23,899

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2020 %	Group's effective equity interest 31.12.2021 %
Held by subsidiaries				
HL Heritage Sdn. Bhd.	Property development and property investment holdings	Malaysia	30.1	30.1
Shanghai Hengshan Equatorial Hotel Management Co., Ltd.	Hotel and property management	People's Republic of China	24.6	24.6
Y & C Engine Co., Ltd ("Y&C")	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	34.4	34.4
Guangxi Yineng IOT Science & Technology Co., Ltd.	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	15.3	15.3
MTU Yuchai Power Co., Ltd ("MTU Yuchai Power")	Manufacture off-road diesel engines	People's Republic of China	38.2	38.2
Eberspaecher Yuchai Exhaust Technology Co. Ltd ("Eberspaecher Yuchai")	Application development, production, sales and service on engine exhaust control systems	People's Republic of China	37.4	37.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

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

In 2020 and 2021, the Group has performed an impairment evaluation of its investments in joint ventures and no impairment was required.

	31.12.2019			
	Y & C RMB'000	**MTU Yuchai Power RMB'000**	**Eberspaecher Yuchai RMB'000**	**Total RMB'000**
Revenue	2,404,244	178,796	3,509	2,586,549
Depreciation and amortization	(26,099)	(6,379)	(25)	(32,503)
Interest expense	(29,606)	(5,017)	–	(34,623)
Profit/(loss) for the year, representing total comprehensive income for the year	44,484	600	(19,114)	25,970
Proportion of the Group's ownership	45%	50%	49%	
Group's share of profit/(loss)	20,018	300	(9,366)	
Unrealized profit on transactions with joint venture	8,466	294	–	
Group's share of profit/(loss) of significant joint ventures	28,484	594	(9,366)	19,712
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				(497)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year				19,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

	31.12.2020			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000
Non-current assets	740,423	71,635	45,583	857,641
Current assets				
- Cash and bank balances	160,844	43,056	2,273	206,173
- Others	1,287,935	266,123	43,895	1,597,953
Total assets	2,189,202	380,814	91,751	2,661,767
Non-current liabilities	(417,759)	–	–	(417,759)
Current liabilities	(1,340,704)	(244,963)	(65,960)	(1,651,627)
Total liabilities	(1,758,463)	(244,963)	(65,960)	(2,069,386)
Equity	430,739	135,851	25,791	592,381
Proportion of the Group's ownership	45%	50%	49%	
Group's share of net assets	193,833	67,926	12,638	
Unrealized profit on transactions with joint venture	(48,234)	(5,709)	–	
Carrying amount of significant joint ventures	145,599	62,217	12,638	220,454
Carrying amount of other joint ventures				6,666
Carrying amount of the investment in joint ventures				227,120

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

31.12.2021	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000	Total US$'000
Non-current assets	660,856	89,749	71,858	822,463	130,091
Current assets					
- Cash and bank balances	179,779	63,609	2,105	245,493	38,830
- Others	817,972	310,394	99,352	1,227,718	194,192
Total assets	1,658,607	463,752	173,315	2,295,674	363,113
Non-current liabilities	(362,779)	–	(14,109)	(376,888)	(59,613)
Current liabilities	(1,147,416)	(271,521)	(94,604)	(1,513,541)	(239,401)
Total liabilities	(1,510,195)	(271,521)	(108,713)	(1,890,429)	(299,014)
Equity	148,412	192,231	64,602	405,245	64,099
Proportion of the Group's ownership	45%	50%	49%		
Group's share of net assets	66,785	96,116	31,655		
Unrealized profit on transactions with joint venture	(43,964)	(6,635)	–		
Carrying amount of significant joint ventures	22,821	89,481	31,655	143,957	22,770
Carrying amount of other joint ventures				7,138	1,129
Carrying amount of the investment in joint ventures				151,095	23,899

31.12.2021	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000	Total US$'000
Revenue	2,072,721	467,800	157,316	2,697,837	426,724
Depreciation and amortization	(52,881)	(2,377)	(709)	(55,967)	(8,852)
Interest expense, net	(51,836)	(1,850)	(41)	(53,727)	(8,498)
Profit/(loss) for the year, representing total comprehensive income for the year	(282,205)	54,526	2,811	(224,868)	(35,568)
Proportion of the Group's ownership	45%	50%	49%		
Group's share of profit/(loss)	(126,992)	27,263	1,377		
Unrealized profit on transactions with joint venture	1,139	774	–		
Group's share of profit/(loss) of significant joint ventures	(125,853)	28,037	1,377	(96,439)	(15,254)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				454	72
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(95,985)	(15,182)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN JOINT VENTURES (cont'd)

Note:

As of December 31, 2021, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 7.0 million (US$ 1.1 million) (2020: RMB 2.1 million).

As of December 31, 2021, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB 213.9 million (US$ 33.8 million) (2020: RMB 40.1 million).

As of December 31, 2021, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 33.1 million (US$ 5.2 million) (2020: RMB 58.4 million).

Significant restrictions

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

The Group's share of cash and cash equivalents of RMB 39.6 million (US$ 6.3 million) (2020: RMB 30.4 million) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

As of December 31, 2021, the Group's share of restricted cash of RMB 74.5 million (US$ 11.8 million) (2020: RMB 65.2 million) which was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2021, the Group's share of bills receivables of RMB 22.0 million (US$ 3.5 million) (2020: RMB 28.6 million) which was used as collateral by banks for the issuance of bills to suppliers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

6.1 Disaggregated revenue information

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

	31.12.2019		
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**
Type of goods or services			
Heavy-duty engines	6,189,934	–	6,189,934
Medium-duty engines	5,583,982	–	5,583,982
Light-duty engines	2,429,248	–	2,429,248
Other products and services [(i)]	3,732,436	–	3,732,436
Revenue from hospitality operations	44,704	35,781	80,485
Total revenue from contracts with customers	17,980,304	35,781	18,016,085
Geographical markets			
People's Republic of China	17,913,615	–	17,913,615
Other countries	66,689	35,781	102,470
Total revenue from contracts with customers	17,980,304	35,781	18,016,085
Timing of revenue recognition			
At a point in time	17,935,600	–	17,935,600
Over time	44,704	35,781	80,485
Total revenue from contracts with customers	17,980,304	35,781	18,016,085

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6.1 Disaggregated revenue information (cont'd)

	31.12.2021			
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**	**Total US$'000**
Type of goods or services				
Heavy-duty engines	7,410,771	–	7,410,771	1,172,182
Medium-duty engines	7,065,283	–	7,065,283	1,117,535
Light-duty engines	2,429,745	–	2,429,745	384,320
Other products and services (i)	4,304,918	77	4,304,995	680,933
Revenue from hospitality operations	43,417	11,719	55,136	8,721
Total revenue from contracts with customers	21,254,134	11,796	21,265,930	3,363,691
Geographical markets				
People's Republic of China	21,206,280	–	21,206,280	3,354,256
Other countries	47,854	11,796	59,650	9,435
Total revenue from contracts with customers	21,254,134	11,796	21,265,930	3,363,691
Timing of revenue recognition				
At a point in time	21,210,718	8,067	21,218,785	3,356,234
Over time	43,416	3,729	47,145	7,457
Total revenue from contracts with customers	21,254,134	11,796	21,265,930	3,363,691

Note:

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

6.2 Contract balances

	31.12.2020 RMB'000	**31.12.2021 RMB'000**	**31.12.2021 US$'000**
Trade receivables (Note 15)	289,048	524,557	82,971
Capitalized contract cost	127,704	147,499	23,330
Contract liabilities (Note 24)	935,462	642,432	101,615

Trade receivables are non-interest bearing and are generally on terms of 60 - 90 days.

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

The significant decrease in contract liabilities as at December 31, 2021 was mainly due to lower advance payment from customers as of the year-end for future product deliveries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6.2 Contract balances (cont'd)

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Amounts include in contract liabilities	363,464	874,391	138,305

(b) Capitalized contract costs

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Capitalized contract costs relating to service fee charge on development of technology know-how			
At January 1	136,457	127,704	20,199
Addition	24,147	19,795	3,131
Reclassified to development costs	(21,519)	–	–
Released to consolidated statement of profit or loss	(11,381)	–	–
At December 31	127,704	147,499	23,330

6.3 Performance obligations

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Within one year	112,454	140,601	22,239
More than one year	67,269	69,172	10,941
Total unfulfilled service-type maintenance service (Note 24)	179,723	209,773	33,180

As of December 31, 2020, the remaining performance obligations (unfulfilled maintenance service) were expected to be satisfied within three years.

In 2021, the Group has reassessed the future satisfaction period relating to the remaining performance obligations related to the unfulfilled service-type maintenance service. Based on the business development and latest data, the Group expects that the remaining performance obligation as of December 31, 2021, to be recognized within 2 years, and accordingly has applied the change of management estimation prospectively. As a result, RMB 36.7 million (US$ 5.8 million) was credited to consolidated statement of profit or loss under "revenue" and lower the contract liability (current) by RMB 36.7 million (US$ 5.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1 Depreciation, amortization, shipping and handling expenses

(a) Depreciation and amortization expenses

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Amortization of intangible assets [(i)]	1,012	1,012	38,957	6,162
Depreciation of investment property	380	376	355	56
Depreciation of property, plant and equipment	422,859	450,092	492,826	77,952
Depreciation of right-of-use assets [(ii)]	40,958	43,127	41,458	6,558
	465,209	494,607	573,596	90,728

Note:

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

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

Depreciation and amortization expenses are included in the following captions:

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Cost of sales	315,445	327,866	381,248	60,303
Research and development expenses	16,470	26,815	41,835	6,618
Selling, general and administrative expenses	133,294	139,926	150,513	23,807
	465,209	494,607	573,596	90,728

(b) Shipping and handling expenses

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

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Selling, general and administrative expenses	221,255	237,683	224,292	35,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.2 (a) Other operating income

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Interest income	177,261	166,970	132,083	20,892
Dividend income from quoted equity securities	959	166	168	26
Gain on disposal of:				
- property, plant and equipment	–	–	1,224	194
- quoted equity securities	11,528	874	5,416	857
- right-of-use assets	9,237	2,574	14,714	2,327
Government grants	122,371	209,793	152,932	24,190
Fair value gain on quoted equity securities	1,118	–	138	22
Fair value gain on foreign exchange forward contract	–	999	–	–
Realised foreign exchange gain, net	3,604	1,390	–	–
Unrealised foreign exchange gain, net	4,679	1,827	–	–
Others	16,404	15,676	19,496	3,083
	347,161	400,269	326,171	51,591

7.2 (b) Other operating expenses

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Fair value loss on quoted equity securities	–	1,196	–	–
Fair value loss on foreign exchange forward contract	5,529	–	–	–
Loss on disposal of property, plant and equipment	645	4,183	–	–
Provision/(reversal) for onerous contract, net	–	13,639	(8,810)	(1,394)
Realised foreign exchange loss, net	–	–	(1,532)	(242)
Unrealised foreign exchange loss, net	–	–	3,271	518
Unrecoverable value added tax	–	–	11,164	1,766
Others	2,501	2,304	5,889	931
	8,675	21,322	9,982	1,579

7.3 Finance costs

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Bank term loans	76,721	95,357	82,109	12,987
Bills discounting	47,212	49,738	27,864	4,408
Bank charges	4,945	3,877	4,136	654
Interest on lease liabilities (Note 17)	2,918	2,198	1,819	288
	131,796	151,170	115,928	18,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.4 Staff costs

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Wages and salaries	1,122,712	1,364,751	1,338,777	211,758
Contribution to defined contribution plans	324,623	287,830	386,551	61,142
Executive bonuses	59,791	59,908	19,355	3,061
Staff welfare	82,692	94,982	93,992	14,867
Staff severance cost	15,454	19,712	11,771	1,862
Others	6,012	3,439	4,887	773
	1,611,284	1,830,622	1,855,333	293,463

Staff costs are included in the following captions:

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Cost of sales	808,763	912,304	985,676	155,907
Research and development expenses	243,049	258,118	283,543	44,849
Selling, general and administrative expenses	559,472	660,200	586,114	92,707
	1,611,284	1,830,622	1,855,333	293,463

8. INCOME TAX EXPENSE

The major components of income tax expense for the years ended December 31, 2019, 2020 and 2021 are as follows:

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Current income tax				
- Current year	193,878	180,254	48,856	7,727
- Over provision in respect of prior years	(6,985)	(124)	(21,523)	(3,404)
Deferred tax				
- Movement in temporary differences	(14,274)	12,543	16,483	2,607
- Over provision in respect of prior years	–	(135)	–	–
Consolidated income tax expense reported in the statement of profit or loss	172,619	192,538	43,816	6,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. 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, 2019, 2020 and 2021 for the following reasons:

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Accounting profit before tax	1,033,319	971,864	451,710	71,447
Computed tax expense at 15%	154,998	145,780	67,757	10,717
Adjustments resulting from:				
Non-deductible expenses	3,982	9,188	17,795	2,815
Tax-exempt income	(6,171)	(601)	(2,181)	(345)
Utilization of deferred tax benefits previously not recognized	(5,076)	(1,996)	(29)	(5)
Deferred tax benefits not recognized	6,613	6,097	10,356	1,638
Tax credits for research and development expense	(31,863)	(26,329)	(59,633)	(9,432)
Tax rate differential	26,223	24,251	16,517	2,612
Over provision in respect of previous years	(6,985)	(259)	(21,523)	(3,404)
Withholding tax expense	30,898	36,332	14,639	2,315
Others	–	75	118	19
Total	172,619	192,538	43,816	6,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Accelerated tax depreciation	(100,802)	(138,770)	(21,950)	(17,366)	(55,882)	(37,968)	(6,006)
Interest receivable	(1,937)	(3,396)	(537)	608	(293)	(1,459)	(231)
PRC withholding tax on dividend income [i]	(112,456)	(65,544)	(10,367)	(30,721)	(36,255)	(14,529)	(2,298)
Impairment of property, plant and equipment	6,210	5,138	812	(9,295)	(438)	(1,072)	(170)
Effect of change in residual value of property, plant and equipment	33,894	60,230	9,527	–	33,894	26,336	4,166
Write-down of inventories	22,628	20,250	3,203	2,343	4,225	(2,378)	(376)
Allowance for doubtful account receivables	8,056	6,789	1,074	4,900	(2,021)	(1,267)	(200)
Accruals	298,766	283,427	44,830	46,108	48,149	(15,339)	(2,426)
Deferred income	108,942	97,828	15,474	12,232	1,211	(11,114)	(1,758)
Losses available for offsetting against future taxable income	–	23,072	3,650	–	–	23,072	3,650
Others	24,441	43,606	6,897	5,465	(4,998)	19,235	3,042
Deferred tax benefits/(expenses)				14,274	(12,408)	(16,483)	(2,607)
Net deferred tax assets	287,742	332,630	52,613				
Reflected in the consolidated statement of financial position as follows:							
Deferred tax assets	400,198	398,174	62,980				
Deferred tax liabilities	(112,456)	(65,544)	(10,367)				
	287,742	332,630	52,613				

Note:

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
At January 1	(106,922)	(112,456)	(17,787)
Provision made to consolidated statement of profit or loss	(36,255)	(14,529)	(2,298)
Utilization	30,721	61,441	9,718
December 31	(112,456)	(65,544)	(10,367)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE (cont'd)

Deferred tax (cont'd)

The Corporate Income Tax ("CIT") law provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profit earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a deferred tax liability for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2021, the deferred tax liability for withholding tax payable was RMB 65.5 million (US$ 10.4 million) (2020: RMB 112.5 million). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 195.5 million (US$ 30.9 million) (2020: RMB 236.4 million).

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Unutilized tax losses	404,215	414,212	65,517
Unutilized capital allowances and investment allowances	105,622	103,810	16,420
Other unrecognized temporary differences relating to asset impairment and deferred grants	204,423	199,203	31,508
	714,260	717,225	113,445

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

9. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE (cont'd)

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Profit attributable to ordinary equity holders of the company	604,914	548,903	272,673	43,129
Weighted average number of ordinary shares	40,858,290	40,858,290	40,858,290	40,858,290

Diluted earnings per share

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

	31.12.2019	31.12.2020	31.12.2021
Weighted average number of shares issued, used in the calculation of basic earnings per share	40,858,290	40,858,290	40,858,290
Diluted effect of share options	–	–	–
Weighted average number of ordinary shares adjusted for effect of dilution	40,858,290	40,858,290	40,858,290

In 2021, 270,000 (2020: 470,000; 2019: 470,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Leasehold buildings and improvements RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Office furniture, fittings and equipment RMB'000	Motor and transport vehicles RMB'000	Total RMB'000
Cost							
At January 1, 2020	14,836	2,376,090	1,037,035	5,285,022	195,154	112,501	9,020,638
Additions	–	16,273	487,725	20,617	14,066	16,166	554,847
Disposals	–	(4,664)	–	(260,996)	(3,604)	(4,742)	(274,006)
Transfers	–	75,264	(823,981)	741,218	7,323	176	–
Write-off	–	(9,759)	–	(53,917)	(8,983)	(912)	(73,571)
Translation difference	(744)	(3,825)	(63)	(459)	(866)	(131)	(6,088)
At December 31, 2020 and January 1, 2021	14,092	2,449,379	700,716	5,731,485	203,090	123,058	9,221,820
Additions	–	2,214	426,621	20,655	16,803	12,598	478,891
Disposals	–	(5,435)	–	(81,321)	(1,896)	(13,860)	(102,512)
Transfers	–	105,117	(721,753)	603,595	13,041	–	–
Write-off	–	(1,551)	–	(48,990)	(7,416)	(2,591)	(60,548)
Translation difference	(628)	(3,439)	(154)	(522)	(1,242)	(36)	(6,021)
At December 31, 2021	13,464	2,546,285	405,430	6,224,902	222,380	119,169	9,531,630
Accumulated depreciation and impairment							
At January 1, 2020	513	848,803	–	3,739,750	151,710	69,418	4,810,194
Charge for the year	–	92,034	–	357,434	19,913	8,939	478,320*
Disposals	–	(1,102)	–	(253,121)	(3,218)	(4,058)	(261,499)
Write-off	–	(4,660)	–	(51,910)	(8,719)	(865)	(66,154)
Impairment loss	–	–	–	3,920	–	–	3,920
Translation difference	(26)	(685)	–	(269)	(651)	(90)	(1,721)
At December 31, 2020 and January 1, 2021	487	934,390	–	3,795,804	159,035	73,344	4,963,060
Charge for the year	–	93,397	–	394,171	19,579	12,371	519,518*
Disposals	–	(2,119)	–	(78,917)	(1,688)	(12,109)	(94,833)
Write-off	–	(1,432)	–	(48,366)	(7,280)	(2,336)	(59,414)
Impairment loss	–	–	–	7,227	–	–	7,227
Translation difference	(30)	(780)	–	(277)	(716)	(34)	(1,837)
At December 31, 2021	457	1,023,456	–	4,069,642	168,930	71,236	5,333,721
Net book value							
At December 31, 2020	13,605	1,514,989	700,716	1,935,681	44,055	49,714	4,258,760
At December 31, 2021	13,007	1,522,829	405,430	2,155,260	53,450	47,933	4,197,909
US$'000	2,057	240,870	64,128	340,904	8,454	7,582	663,995

* In 2021, RMB 26.1 million (US$ 4.1 million) (2020: RMB 28.2 million) were capitalized as development costs. In 2021, RMB 0.6 million (US$ 0.1 million) (2020: RMB Nil) were capitalized as capitalized contract cost.

An impairment loss of RMB 7.2 million (US$ 1.1 million) (2020: RMB 3.9 million; 2019: RMB 4.0 million) was charged to the consolidated statement of profit or loss under "Cost of sales" for the Group's plant and equipment within the Yuchai segment. The impairment loss was due to assets that were not in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENT PROPERTY

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Cost			
At January 1	34,940	33,187	5,249
Translation difference	(1,753)	(1,377)	(218)
At December 31	33,187	31,810	5,031
Accumulated depreciation			
At January 1	28,388	27,358	4,327
Charge for the year	376	355	56
Translation difference	(1,406)	(989)	(156)
At December 31	27,358	26,724	4,227
Net carrying amount	5,829	5,086	804
Fair value	11,954	11,308	1,789
Consolidated statements of profit or loss:			
Rental income from an investment property	230	77	12
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	(180)	(82)	(13)

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

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

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

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2021	Market comparison and cost method	Comparable price: - RMB 165 to RMB 401 (US$ 26 to US$ 63) per square foot	The estimated fair value increases with higher comparable price
2020	Market comparison and cost method	Comparable price: - RMB 172 to RMB 418 (US$ 27 to US$ 65) per square foot	The estimated fair value increases with higher comparable price

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS

	Goodwill RMB'000	Technology Know-how RMB'000	Development costs RMB'000	Trademarks RMB'000	Total RMB'000
Cost					
At January 1, 2020	218,311	136,822	562,587	169,811	1,087,531
Addition	–	–	530,836	–	530,836
At December 31, 2020 and January 1, 2021	218,311	136,822	1,093,423	169,811	1,618,367
Addition	–	–	313,571	–	313,571
Transfer	–	414,704	(414,704)	–	–
At December 31, 2021	218,311	551,526	992,290	169,811	1,931,938
Accumulated amortization and impairment					
At January 1, 2020	5,675	127,712	–	–	133,387
Amortization	–	1,012	–	–	1,012
At December 31, 2020 and January 1, 2021	5,675	128,724	–	–	134,399
Amortization	–	38,957	–	–	38,957
At December 31, 2021	5,675	167,681	–	–	173,356
Net carrying amount					
At December 31, 2020	212,636	8,098	1,093,423	169,811	1,483,968
At December 31, 2021	212,636	383,845	992,290	169,811	1,758,582
US$'000	33,633	60,714	156,953	26,860	278,160

Goodwill

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

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

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

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Yuchai	212,636	212,636	33,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS (cont'd)

Goodwill (cont'd)

Yuchai unit

The Group performs its impairment test annually. The recoverable amount of the unit was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. The business of Yuchai is stable since the Group has control in 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections was 12.54% (2020: 12.37%) and cash flows beyond the ten-year period are extrapolated using a 5% growth rate (2020: 6%) that is the same as the long-term average growth rate for PRC. No impairment was identified for this unit.

Key assumptions used for value in use calculations

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

- Profit from operation
- Discount rate
- 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 and future business outlook of Yuchai unit.

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

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 5% and 6.0% for 2021 and 2020 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 demand by 15.21% (2020: 13.99%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 14.03% (2020: 13.58%) in the Yuchai unit would result in impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS (cont'd)

Goodwill (cont'd)

Sensitivity to changes in assumptions (cont'd)

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 1.53% (2020: 3.60%) 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.

Technology know-how

At December 31, 2020, The Group has an intangible asset representing technology development costs with carrying amount of RMB 8.1 million, which is the technology know-how that relates to production of 4Y20 engines. As of December 31, 2020, the accumulated impairment loss charged on this Technology Know-how was RMB 126.7 million.

In late 2018, the Group had commenced the production of 4Y20 engines. In 2019, 2020 and 2021, management believed that there was no indicator for further impairment, and also considered there was no significant changes to the market and economic environment which will have a favourable effect to the recoverable amount of the intangible asset. Management concluded that no reversal of impairment was necessary in 2019, 2020 and 2021.

In 2021, the development of certain engine platform relating to National VI engines were completed, and the related development costs amounting to RMB 414.7 million (US$ 65.6 million) were transferred from development costs to Technology Know-how, and amortization were charged accordingly based on the Group's policy.

Development costs

During 2020 and 2021, the Group has capitalized development costs of RMB 530.8 million and RMB 313.6 million (US$ 49.6 million), respectively, for new engines that comply with National VI and Tier 4 emission standards. As of December 31, 2021, the total capitalized development costs are RMB 992.3 million (US$ 157.0 million). These development costs relate to on-going development efforts and, accordingly, have not yet been available for use, and therefore no amortization charges were recorded.

In 2020 and 2021, the Group performs an impairment test on the development costs that are not available for use. No impairment has been identified. The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. Both the 2020 and 2021, the Group used 8 years forecast and were based on the updated financial budgets approved by the senior management with no terminal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS (cont'd)

Development costs (cont'd)

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

- Profit from operation – Profit from operation is based on management's estimate with reference to historical revenue generated, growth rate and estimation of future business outlook. In 2021, the Group used a 8 years business plan, the revenue growth rate is estimated at an average around 12% year-on-year from 2022 to 2025 due to the implementation of new emission standard and government encouragement of consumption of new energy products, decrease to 5% in 2026 and thereafter management assumed no revenue growth from 2026 to 2029. In 2020, the business plan projected 8 years, the revenue growth rate is estimated at around 10% year-on-year from 2021 to 2023 and decrease to 5% in 2024 and 2025. Management assumed no revenue growth from 2026 to 2028 after reaching the commercial deployment of technology.
- Discount rate – Discount rate reflects management's estimate of the risks specific to the cash-generating unit and is estimated based on weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the cash-generating unit is obliged to service. This rate is weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group. The Group has applied a pre-tax discount rate of 12.54% (2020: 12.37%).

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 13.86% (2020: 25.94%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 15.69% (2020: 20.05%) would result in impairment.

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

Trademarks

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

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

In 2020 and 2021, the Group performed an annual impairment review by taking Yuchai as a cash–generating unit. Using the same cash flow projection and assumptions for goodwill impairment test disclosed above, management concluded that no impairment charge is to be recognized in 2020 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INVENTORIES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Raw materials	1,940,119	2,111,881	334,042
Work in progress	33,211	25,169	3,981
Finished goods	2,497,865	3,071,586	485,841
Total inventories at the lower of cost and net realizable value	4,471,195	5,208,636	823,864

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Inventories recognized as an expense in cost of sales	13,167,181	15,501,807	16,457,476	2,603,125
Inclusive of the following charge/(credit):				
- Inventories written down	31,810	82,386	32,813	5,190
- Reversal of write-down of inventories	(14,788)	(54,408)	(41,823)	(6,615)
- Inventories written off	–	–	10,085	1,595

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

14. OTHER CURRENT ASSETS

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Current			
Development properties	16,906	16,167	2,557
Quoted equity securities (i)	6,258	606	96
	23,164	16,773	2,653

Note:

(i) The quoted equity securities are listed on the Singapore Exchange. In 2021, the Group has disposed some of the quoted equity securities for consideration of RMB 6.5 million (US$ 1.0 million) (2020: RMB 1.4 million) and recognized a gain on disposal of RMB 5.4 million (US$ 0.9 million) (2020: RMB 0.9 million) in consolidated statement of profit or loss under "Other operating income".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Trade receivables, gross	332,567	557,767	88,224
Less: Allowance for expected credit losses	(43,519)	(33,210)	(5,253)
Net trade receivables (Note 6.2)	289,048	524,557	82,971
Bills receivable (i)	7,793,343	6,437,100	1,018,174
Total (Note 34)	8,082,391	6,961,657	1,101,145
Amounts receivable:			
- associates and joint ventures (trade)	1,266	243	38
- associates and joint ventures (non-trade)	11,119	11,959	1,892
- related parties (trade)	9,663	70,594	11,166
- related parties (non-trade)	2,992	459	73
Bills receivable in transit	12,620	22,360	3,537
Interest receivables	4,999	11,788	1,865
Staff advances	3,326	5,578	882
Others	36,951	24,085	3,810
Less: Impairment losses – other receivables (ii)	(6,741)	(6,231)	(986)
Other receivables carried at amortized cost (Note 34)	76,195	140,835	22,277
Tax recoverable	236,400	328,369	51,939
Prepayments	64,102	66,474	10,514
Right of return assets	–	40,761	6,447
Net other receivables	376,697	576,439	91,177
Total trade and other receivables	8,459,088	7,538,096	1,192,322

Note:

(i) As of December 31, 2021, bills receivable includes bills received from joint ventures and related parties amounted to RMB 0.7 million (US$ 0.1 million) (2020: RMB Nil) and RMB 523.5 million (US$ 82.8 million) (2020: RMB 1,014.1 million) respectively.
As of December 31, 2020 and 2021, bills receivable amounted to RMB 13.4 million (US$ 2.1 million) (2020: RMB Nil) was pledged to secure bank facilities.

(ii) This comprised impairment loss on bills receivable in transit of RMB 6.0 million (US$ 0.9 million) as of December 31, 2021 (2020: RMB 6.5 million). This impairment loss was charged to the consolidated statement of profit or loss under "Selling, general and administrative expenses".

Trade receivables are non-interest bearing and are generally on 60-90 days' term. They are recognized at their original invoice amounts which represent their fair values on initial recognition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES (cont'd)

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
At January 1	62,854	50,260	7,950
Credit to consolidated statement of profit or loss (under "Selling, general and administrative expenses")	(12,349)	(8,525)	(1,348)
Written off	(242)	(2,278)	(360)
Translation difference	(3)	(16)	(3)
At December 31	50,260	39,441	6,239

As of December 31, 2020 and 2021, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled RMB 2,225.1 million and RMB 79.1 million (US$ 12.5 million) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2020 and 2021, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 1,834.5 million and RMB 2,550.0 million (US$ 403.3 million) respectively.

As of December 31, 2020 and 2021, trade receivables due from a major customer group, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 17.6 million and RMB 65.7 million (US$ 10.4 million), respectively. See Note 31 for further discussion of customer concentration risk.

For terms and conditions relating to related parties, refer to Note 28.

16. CASH AND CASH EQUIVALENTS

LONG-TERM BANK DEPOSITS

SHORT-TERM BANK DEPOSITS

RESTRICTED CASH

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Non-current			
Long-term bank deposits (i)	140,000	110,000	17,399
Current			
Cash and cash equivalents	5,877,647	4,788,219	757,366
Short-term bank deposits (ii)	258,756	357,335	56,521
Restricted cash	171,135	76,001	12,021
	6,307,538	5,221,555	825,908
Cash and bank balances	6,447,538	5,331,555	843,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. CASH AND CASH EQUIVALENTS (cont'd)

LONG-TERM BANK DEPOSITS (cont'd)

SHORT-TERM BANK DEPOSITS (cont'd)

RESTRICTED CASH (cont'd)

Note:

(i) In 2021, YMMC has placed new three-year time deposits of RMB 20.0 million (US$ 3.2 million) (2020: RMB 90.0 million) at annual interest rate of 3.85% (2020: range from 3.85% to 3.99%) with certain banks. These long-term deposits are not considered to be cash equivalents.
As at December 31, 2021, the three-year time deposits placed in 2019 has remaining maturity period of less than 12 months. Accordingly, this has been classified as short-term bank deposits in 2021.

(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, 2021 for the Group ranged from 0.30% to 1.65% (2020: 0.23% to 2.25%). These short-term bank deposits are not considered as cash equivalents.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rate of the bank deposits (excluding long-term and short-term bank deposits) as of December 31, 2021 for the Group ranged from 0.13% to 1.55% (2020: 0.10% to 1.55%).

As at December 31, 2021, there is fixed deposits of RMB 140.3 million (US$ 22.2 million) held with a related party (2020: RMB 130.8 million).

As of December 31, 2021, the Group's restricted cash of RMB 76.0 million (US$ 12.0 million) (2020: RMB 171.1 million) was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2020 and 2021, the Group had RMB 491.9 million and RMB 474.2 million (US$ 75.0 million) respectively, of undrawn borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2019, 2020 and 2021 were RMB 0.2 million, less than RMB 0.1 million and RMB Nil (US$ Nil) respectively.

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Cash at banks and on hand	5,466,288	4,218,131	667,194
Short-term bank deposits (i)	411,359	570,088	90,172
Cash and cash equivalents	5,877,647	4,788,219	757,366

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. LEASES

Group as a lessee

The Group has lease contracts for land, motor vehicles, office space and staff accommodations used in its operations. These leases are generally with lease term of between 1 and 6 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

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

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

	Leasehold land RMB'000	Building and office space RMB'000	Office furniture, fittings and equipment RMB'000	Total RMB'000	Total US$'000
At January 1, 2020	353,807	61,556	21	415,384	65,702
Addition	2,058	13,198	–	15,256	2,413
Depreciation expenses	(14,102)	(29,182)	(14)	(43,298)	(6,848)
Disposal	(3,198)	–	–	(3,198)	(506)
Translation difference	–	(142)	(1)	(143)	(22)
At December 31, 2020 and January 1, 2021	338,565	45,430	6	384,001	60,739
Addition	1,355	22,558	58	23,971	3,792
Depreciation expenses	(13,655)	(27,790)	(13)	(41,458)	(6,558)
Disposal	(21,620)	–	–	(21,620)	(3,420)
Translation difference	–	(80)	–	(80)	(13)
At December 31, 2021	304,645	40,118	51	344,814	54,540

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

	2020 RMB'000	2021 RMB'000	2021 US$'000
At January 1	60,007	39,778	6,291
Additions	15,256	23,971	3,792
Accretion of interest (Note 7.3)	2,198	1,819	288
Payments	(37,561)	(24,940)	(3,945)
Translation difference	(122)	(97)	(16)
At December 31	39,778	40,531	6,410
Current (Note 25)	22,755	27,125	4,290
Non-current (Note 25)	17,023	13,406	2,120
Total	39,778	40,531	6,410

The maturity analysis of lease liabilities is disclosed in Note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. LEASES (cont'd)

Group as a lessee (cont'd)

The following are the amounts recognized in profit of loss:

	2020 RMB'000	2021 RMB'000	2021 US$'000
Depreciation charge for right-of-use assets	43,127	41,458	6,558
Interest expenses on lease liabilities (Note 7.3)	2,198	1,819	288
Expenses relating to short-term leases (included in selling, general and administrative expenses and research and development expenses)	14,313	27,686	4,379
Total amount recognized in profit or loss	59,638	70,963	11,225

In 2021, the Group had total cash outflows for leases of RMB 52.6 million (US$ 8.3 million) (2020: RMB 51.9 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of RMB 24.0 million (US$ 3.8 million) in 2021 (2020: RMB 15.3 million). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 29.

Group as a lessor

The Group has entered into operating leases on some of its assets, including surplus offices and warehouses. Theses leases have terms between 1 to 15 years. Rental income recognized by the Group during the year is RMB 15.2 million (US$ 2.4 million) (2020: RMB 13.3 million).

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Within 1 year			
- related parties	902	598	95
- joint venture	2,590	1,425	225
- third parties	5,058	5,573	882
After 1 year but within 5 years			
- related parties	–	2,358	373
- joint venture	10,720	5,698	901
- third parties	13,305	7,240	1,145
More than 5 years			
- joint venture	14,141	10,566	1,671
- third parties	4,392	4,272	676
	51,108	37,730	5,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. ISSUED CAPITAL

	31.12.2020 thousands	31.12.2021 thousands
Issued capital		
Authorized shares		
Ordinary share of par value US$ 0.10 each	100,000	100,000

	Number of shares	RMB'000
Ordinary shares issued and fully paid		
At January 1, 2020, December 31, 2020 and December 31, 2021	40,858,290	2,081,138
US$'000		329,179

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$ 0.10 per share	*	*	*

* Less than RMB 1 (US$ 1)

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

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

19. DIVIDENDS DECLARED AND PAID

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2021: US$ 1.70 per share (2020: US$ 0.85 per share)	245,871	448,712	70,974
Dividend paid in cash	245,871	448,712	70,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. RESERVES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Statutory reserve			
Statutory general reserve (i)			
At January 1	278,601	281,459	44,519
Transfer from retained earnings	2,858	2,072	328
At December 31	281,459	283,531	44,847
General surplus reserve (ii)			
At January 1 and December 31	25,706	25,706	4,066
Total	307,165	309,237	48,913
Capital reserves (iii)			
At January 1 and December 31	30,704	30,704	4,857

Note:

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

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

(iii) Capital reserves pertain to a capital transaction in 2015.

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Other components of equity			
Foreign currency translation reserve (i)	(89,925)	(118,176)	(18,692)
Performance shares reserve (ii)	19,758	19,758	3,125
Premium paid for acquisition of non-controlling interests	(11,472)	(11,472)	(1,814)
Fair value reserve of financial assets at FVOCI (iii)	(79,720)	(30,902)	(4,888)
Total	(161,359)	(140,792)	(22,269)

Note:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE-BASED PAYMENT

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

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

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

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

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

In 2021, there was no expense arising from equity-settled share-based payment transactions. (2019: Nil; 2020: Nil).

Movements during the year

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

	Number of share options 31.12.2020	WAEP 31.12.2020	Number of share options 31.12.2021	WAEP 31.12.2021
Outstanding at January 1	470,000	US$ 21.11	470,000	US$ 21.11
Cancelled during the year	–	–	(200,000)	US$ 21.11
Outstanding at December 31	470,000	US$ 21.11	270,000	US$ 21.11
Exercisable at December 31	470,000	US$ 21.11	270,000	US$ 21.11

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

Fair value of share options and assumptions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE-BASED PAYMENT (cont'd)

Fair value of share options and assumptions (cont'd)

The exercise price for options outstanding as of December 31, 2021 was US$ 21.11 dollar (2020: US$ 21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as of December 31, 2021 was 2.6 (2020: 3.6) 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 granted. Service conditions and non-market performance conditions are not taken into account in the measurement of the fair value of the service to be received at the grant date.

22. TRADE AND OTHER PAYABLES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Current			
Trade payables	3,406,398	3,884,812	614,472
Bills payables [i]	3,348,163	3,085,206	487,996
Other payables	533,705	423,787	67,032
Accrued expenses	233,053	167,575	26,506
Accrued staff costs	714,701	689,327	109,033
Refund liabilities	1,031,562	913,756	144,531
Dividend payable	49,468	29,304	4,635
Amount due to:			
- associates and joint ventures (trade)	467,351	176,819	27,968
- associates and joint ventures (non-trade)	205	27	4
- related parties (trade)	238,622	214,980	34,004
- related parties (non-trade)	1,841	1,308	207
Financial liabilities carried at amortized cost (Note 31, Note 34)	10,025,069	9,586,901	1,516,388
Deferred grants (Note 27)	23,468	12,482	1,974
Advance from customers	320	316	50
Other tax payable	62,111	39,416	6,234
Total trade and other payables (current)	10,110,968	9,639,115	1,524,646

(i) As of December 31, 2021, the bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 28.4 million (US$ 4.5 million) (2020: RMB 105.6 million), RMB 5.4 million (US$ 0.9 million) (2020: RMB 12.9 million) and RMB 237.6 million (US$ 37.6 million) (2020: RMB 249.0 million) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. TRADE AND OTHER PAYABLES (cont'd)

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Non-current			
Other payables [(i)] (Note 31, Note 34)	191,563	188,725	29,851

(i) This relates to accrual for bonus that is not expected to be settled within next 12 months.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60 - 90 day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- For terms and conditions relating to related parties, refer to Note 28.

23. PROVISION

	Provision for warranty RMB'000	Provision for onerous contract RMB'000	Total RMB'000	Total US$'000
At January 1, 2020	215,715	2,316	218,031	34,487
Provision made	335,664	13,639	349,303	55,250
Provision utilized	(295,940)	–	(295,940)	(46,810)
Provision reversed	–	(2,316)	(2,316)	(366)
At December 31, 2020 and January 1, 2021	255,439	13,639	269,078	42,561
Provision made	292,157	4,829	296,986	46,975
Provision utilized	(299,397)	–	(299,397)	(47,357)
Provision reversed	–	(13,639)	(13,639)	(2,157)
At December 31, 2021	248,199	4,829	253,028	40,022

24. CONTRACT LIABILITIES

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Unfulfilled service-type maintenance services	179,723	209,773	33,180
Advance from customer	755,739	432,659	68,435
Total	935,462	642,432	101,615
Current	868,193	573,259	90,674
Non-current	67,269	69,173	10,941
Total contract liabilities (Note 6.2)	935,462	642,432	101,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. LEASE LIABILITIES

	Effective interest rate %	Maturity	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Current (Note 17)	1.25% - 6.20%	2021	22,755	27,125	4,290
Non- current (Note 17)	1.25% - 6.20%	2022-2026	17,023	13,406	2,120

26. LOANS AND BORROWINGS

	Effective interest rate %	Maturity	31.12.2020 RMB'000
Current			
Renminbi denominated loans	1.80 – 4.05	2021	1,730,000
Non-current			
Renminbi denominated loans	3.30	2022	500,000

	Effective interest rate %	Maturity	31.12.2021 RMB'000	31.12.2021 US$'000
Current				
Renminbi denominated loans	1.10 – 3.85	2022	2,103,000	332,637
Non-current				
Renminbi denominated loans	3.45	2023	100,000	15,817

Note:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. LOANS AND BORROWINGS (cont'd)

S$ 30.0 million credit facility with MUFG Bank Ltd, Singapore Branch (formally known as Bank of Tokyo Mitsubishi UFJ, Ltd., Singapore Branch) ("MUFG")

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

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

On June 24, 2020, the Company entered into an uncommitted and unsecured multi-currency short-term revolving credit facility agreement with SMBC for an aggregate value of US$ 30.0 million to refinance the US$ 30.0 million facility that matured on March 18, 2020. The maximum tenor of each drawdown under the facility is 6 months and will be utilized by the Company to finance its general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year not less than US$ 200 million and the ratio of the Company's consolidated total net debt (as defined in the agreement) to consolidated tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

27. DEFERRED GRANTS

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
At January 1	676,728	541,610	85,668
Received during the year	52,241	50,582	8,000
Grant receivable	129	–	–
Grant disbursed to partner of joint project	(48,632)	(16,270)	(2,573)
Released to consolidated statement of profit or loss	(138,856)	(151,782)	(24,008)
At December 31	541,610	424,140	67,087
Current (Note 22)	23,468	12,482	1,974
Non-current	518,142	411,658	65,113
	541,610	424,140	67,087

The government grant that have been received in PRC was to support and fund Yuchai's production facilities, research and development activities for product innovations and developments. As at December 31, 2021, RMB 247.9 million (US$ 32.9 million) (2020: RMB 271.6 million) of the deferred grants are related to assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. DEFERRED GRANTS (cont'd)

The grant receivable is related to the Job Support Scheme (the "JSS") that was introduced in Singapore in response to COVID-19 coronavirus pandemic. The JSS is temporary scheme introduced to help the enterprises retain local employees during the period of economic uncertainty. Under the JSS, employers will receive cash grants in relation to the gross monthly wages of eligible employees. In 2020 and 2021, JSS grant income amounted to RMB 1.1 million and RMB 0.3 million (less than US$ 0.1 million) were credited to the consolidated statement of profit or loss under "Other income".

28. RELATED PARTY DISCLOSURES

The ultimate parent

As of December 31, 2021, the controlling shareholder of the Company, HLA, indirectly owned 18,270,965, or 44.7% (2020: 18,270,965, or 44.7%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.3% (2020: 23.3%) of the ordinary shares in the capital of the Company and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 21.4% (2020: 21.4%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of RMB 0.5 million (less than US$ 0.1 million) (2020: RMB 0.03 million; 2019: RMB 0.03 million) during the financial years ended December 31, 2019, 2020 and 2021 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2021, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2020: 17.2%) of the ordinary shares in the capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. RELATED PARTY DISCLOSURES (cont'd)

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

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Sales of engines and materials				
- associates and joint ventures	912,877	1,256,268	393,440	62,232
- GY Group (including its subsidiaries and affiliates)	1,792,280	2,637,845	3,223,785	509,915
Purchase of material, supplies and engines				
- associates and joint ventures	1,999,831	2,792,707	2,036,675	322,146
- GY Group (including its subsidiaries and affiliates)	1,895,239	1,245,030	1,307,137	206,754
Hospitality, restaurant, consultancy and other service income charged to				
- a joint venture	3,984	3,918	2,152	340
- GY Group (including its subsidiaries and affiliates)	15,350	6,765	6,609	1,045
Service charge charged by				
- joint ventures	–	–	5,023	795
Rental income				
- joint ventures	3,206	4,565	4,415	698
- GY Group (including its subsidiaries and affiliates)	2,133	3,970	275	43
Property management service expenses				
- GY Group (including its subsidiaries and affiliates)	22,595	24,968	21,978	3,476
Selling, general and administrative expenses				
- a joint venture	–	7,287	2,530	400
- GY Group (including its subsidiaries and affiliates)	19,953	4,728	9,315	1,473
- HLA (including its affiliates)	6,788	6,687	7,188	1,137
Delivery, storage, distribution and handling expenses				
- GY Group (including its subsidiaries and affiliates)	304,532	312,891	300,699	47,562
Payment for trademarks usage fee				
- GY Group	169,811	–	–	–
Payment for lease liabilities				
- GY Group (including its subsidiaries and affiliates)	33,594	18,086	17,215	2,723
Purchases of vehicles and machineries				
- GY Group (including its subsidiaries and affiliates)	2,817	2,838	3,460	547

Note:

(i) The Group has adopted IFRS 16 on January 1, 2019. These leasing expenses have been recognized as right-of-use assets and lease liabilities on the consolidated statement of financial position as of December 31, 2020 and 2021.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. RELATED PARTY DISCLOSURES (cont'd)

Compensation of key management personnel of the Group

	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Short-term employee benefits	41,606	43,178	25,289	4,000
Contribution to defined contribution plans	362	292	273	43
	41,968	43,470	25,562	4,043

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

29. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has various lease contracts that have not yet commenced as of December 31, 2021. The future lease payments for these non-cancellable lease contracts are as follows:

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Within 1 year	321	2,769	438
After 1 year but within 5 years	1,628	2,178	345
After 5 years	71	–	–
	2,020	4,947	783

The Group has entered into certain lease contracts in which the lease of these assets will be commencing in 2022. The Group has disclosed these as operating lease commitments as at year end.

Capital commitments

As of December 31, 2020 and 2021, the Group had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid and not recognized amounting to RMB 450.0 million and RMB 425.2 million (US$ 67.3 million) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 5.

Investment commitments

As of December 31, 2020 and 2021, the Group has commitment of RMB 17.6 million and RMB Nil (US$ Nil) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2020 and 2021, Yuchai had issued irrevocable letter of credits of RMB 54.4 million and RMB 31.7 million (US$ 5.0 million), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. COMMITMENTS AND CONTINGENCIES (cont'd)

Product liability

The General Principles of the Civil Law of the People's Republic of China 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 Ecology and Environment (formerly known as 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.

30. SEGMENT INFORMATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. SEGMENT INFORMATION (cont'd)

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

Year ended December 31, 2019	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 6.1)	17,980,304	35,781	–	–	18,016,085
Results					
Interest income	158,855	5,167	13,239	–	177,261
Interest expense	(126,379)	(51)	(421)	–	(126,851)
Impairment of property, plant and equipment	(3,950)	–	–	–	(3,950)
Staff severance cost	(15,454)	–	–	–	(15,454)
Depreciation and amortization	(458,665)	(5,551)	(993)	–	(465,209)
Share of profit of associates and joint venture	18,137	897	–	–	19,034
Income tax expense	(141,330)	(527)	(41)	(30,721)[1]	(172,619)
Segment profit after tax	884,562	4,457	1,939	(30,258)[1]	860,700
Total assets	22,817,479	416,397	2,120,767	(1,500,452)	23,854,191
Total liabilities	(12,127,021)	(15,575)	(31,278)	(106,932)[2]	(12,280,806)
Other disclosures					
Investment in joint ventures	271,274	2,717	–	–	273,991
Capital expenditure	917,192	1,033	55	–	918,280

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. SEGMENT INFORMATION (cont'd)

Year ended December 31, 2021	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000	Consolidated financial statements US$'000
Revenue						
Total external revenue (Note 6.1)	21,254,134	11,796	–	–	21,265,930	3,363,691
Results						
Interest income	129,520	1,363	1,200	–	132,083	20,892
Interest expense	(111,747)	(19)	(26)	–	(111,792)	(17,683)
Impairment of property, plant and equipment	(7,227)	–	–	–	(7,227)	(1,143)
Staff severance cost	(11,771)	–	–	–	(11,771)	(1,862)
Depreciation and amortization	(567,465)	(5,221)	(910)	–	(573,596)	(90,728)
Share of profit of associates and joint venture	(96,658)	763	–	–	(95,895)	(15,168)
Income tax expense	(29,043)	(245)	–	(14,528)[1]	(43,816)	(6,930)
Segment profit after tax	443,499	(6,728)	(20,321)	(8,556)[1]	407,894	64,517
Total assets	24,092,883	368,415	2,146,060	(1,506,672)	25,100,686	3,970,244
Total liabilities	(13,402,330)	(10,322)	(13,550)	(59,140)[2]	(13,485,342)	(2,133,012)
Other disclosures						
Investment in joint ventures	147,106	3,989	–	–	151,095	23,899
Capital expenditure	474,562	4,310	19	–	478,891	75,748

Note:

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

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

Geographic information

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

Revenue from one customer group amounted to RMB 5,328.0 million (US$ 842.7 million) (2020: RMB 6,018.2 million; 2019: RMB 5,205.5 million), arising from sales by Yuchai segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. SEGMENT INFORMATION (cont'd)

Non-current assets

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
People's Republic of China	6,268,004	6,370,404	1,007,624
Other countries	94,067	89,549	14,164
	6,362,071	6,459,953	1,021,788

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

31. 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 quoted equity securities.

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as of December 31, 2020 and 2021.

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, 2021.

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

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

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest-bearing financial liabilities at the end of the reporting period and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis points increase or decrease is used and represents management's assessment of the possible change in interest rates.

If interest rate had been 50 (2020: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2021 of the Group would increase/decrease by RMB 15.4 million (US$ 2.4 million) (2020: increase/decrease by RMB 20.9 million).

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

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

Foreign currency risk (cont'd)

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

	31.12.2020				
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Renminbi RMB'000	Others RMB'000
Quoted equity securities	6,258	–	–	–	–
Trade and other receivables	620	8,624	913	305	372
Cash and bank balances	181,575	3,829	45,203	–	15,086
Financial liabilities	(1,462)	–	–	–	–
Trade and other payables	(6,184)	(9,356)	(10,858)	(2,464)	–
Net assets/(liabilities)	180,807	3,097	35,258	(2,159)	15,458

	31.12.2021			
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Others RMB'000
Quoted equity securities	606	–	–	–
Trade and other receivables	676	8,806	297	–
Cash and bank balances	164,544	2,535	4,345	14,342
Financial liabilities	(1,428)	–	–	–
Trade and other payables	(4,551)	(8,997)	(3,651)	(510)
Net assets/(liabilities)	159,847	2,344	991	13,832
US$'000	25,283	371	157	2,188

Foreign currency risk sensitivity

A 10% strengthening of the following major currencies against the functional currency of each of the Group's entities at the reporting date would increase/(decrease) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit before tax		
	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Singapore Dollar	18,081	15,985	2,528
Euro	310	234	37
US Dollar	3,526	99	16
Renminbi	(216)	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Equity price risk

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

Equity price risk sensitivity

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Statement of profit or loss	626	61	10

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Credit risk (cont'd)

Trade receivables (cont'd)

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

As of December 31, 2020	Trade receivables					
			Days past due			
	Total RMB'000	Current RMB'000	0 – 90 days RMB'000	91-180 days RMB'000	181-365 days RMB'000	>365 days RMB'000
Expected credit loss rate	13.1%	–	4.2%	4.9%	7.8%	72.8%
Estimated total gross carrying amount at default	332,567	126,706	91,233	29,675	36,413	48,540
Expected credit loss	43,519	–	3,860	1,451	2,852	35,356

As of December 31, 2021	Trade receivables					
			Days past due			
	Total RMB'000	Current RMB'000	0 – 90 days RMB'000	91-180 days RMB'000	181-365 days RMB'000	>365 days RMB'000
Expected credit loss rate	6.0%	–	0.6%	5.9%	13.2%	56.6%
Estimated total gross carrying amount at default	557,767	279,402	154,494	37,756	43,084	43,031
Expected credit loss	33,210	–	916	2,234	5,707	24,355

At December 31, 2021, the Group had top 20 customers (2020: top 20 customers) that owed the Group more than RMB 398.5 million (US$ 63.0 million) (2020: RMB 125.5 million) and accounted for approximately 63.4% (2020: 37.7%) of trade receivables (excluding bills receivables) respectively. These customers are located in the PRC. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 15. The Group's share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 5.

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

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows, and having adequate amounts of committed credit facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Liquidity risk (cont'd)

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

As of December 31, 2020	1 year or less RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Financial assets				
Trade and bills receivables	8,082,391	–	–	8,082,391
Other receivables, excluding tax recoverable	76,195	–	–	76,195
Cash and bank balances	6,307,538	140,000	–	6,447,538
Quoted equity securities	6,258	–	–	6,258
	14,472,382	140,000	–	14,612,382
Financial liabilities				
Loans and borrowings	1,753,142	524,275	–	2,277,417
Trade and other payables (Note 22)	10,025,069	191,563	–	10,216,632
Lease liabilities	24,313	22,761	325	47,399
	11,802,524	738,599	325	12,541,448

As of December 31, 2021	1 year or less RMB'000	2 to 5 years RMB'000	Total RMB'000	Total US$'000
Financial assets				
Trade and bills receivables	6,961,657	–	6,961,657	1,101,145
Other receivables, excluding tax recoverable	140,835	–	140,835	22,277
Cash and bank balances	5,221,555	110,000	5,331,555	843,307
Quoted equity securities	606	–	606	96
	12,324,653	110,000	12,434,653	1,966,825
Financial liabilities				
Loans and borrowings	2,130,356	101,524	2,231,880	353,023
Trade and other payables (Note 22)	9,586,901	188,725	9,775,626	1,546,238
Lease liabilities	28,121	13,650	41,771	6,607
	11,745,378	303,899	12,049,277	1,905,868

32. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance except where decisions are made to exit businesses or close companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. CAPITAL MANAGEMENT (cont'd)

The capital structure of the Group consists of debts (which includes the borrowings, lease liabilities and trade and other payables, less cash and bank balances) and equity attributable to equity holders of the company (comprising issued capital and reserves).

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US$'000
Loans and borrowings (current and non-current) (Note 26)	2,230,000	2,203,000	348,454
Lease liabilities (current and non-current) (Note 25)	39,778	40,531	6,410
Trade and other payables (current and non-current) (Note 22)	10,302,531	9,827,840	1,554,497
Less: Cash and bank balances (Note 16)	(6,447,538)	(5,331,555)	(843,307)
Net debts	6,124,771	6,739,816	1,066,054
Equity attributable to equity holders of the company	9,014,624	8,859,152	1,401,277
Total capital and net debts	15,139,395	15,598,968	2,467,331

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, 2020 and 2021.

As disclosed in Note 20, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2020 and 2021.

33. FAIR VALUE MEASUREMENT

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as of December 31, 2020:

		Fair value measurement using		
	Date of valuation	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value				
Quoted equity securities:				
Quoted equity shares – TCL (Note 14)	December 31, 2020	6,258	6,258	–
Debt instruments (ii):				
Bills receivable	December 31, 2020	7,793,343	–	7,793,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. FAIR VALUE MEASUREMENT (cont'd)

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

	Date of valuation	Total US$'000	Total RMB'000	Fair value measurement using: Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value					
Quoted equity securities:					
Quoted equity shares – TCL (Note 14)	December 31, 2021	96	606	606	–
Debt financial assets [ii]:					
Bills receivable	December 31, 2021	528,110	3,338,816	–	3,338,816

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.

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

There have been no transfers between Level 1 and Level 2 during 2021 and 2020.

34. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As of December 31, 2020						
Financial assets						
Quoted equity securities	14	6,258	–	–	–	6,258
Trade and bills receivable	15	–	289,048	7,793,343	–	8,082,391
Other receivables	15	–	76,195	–	–	76,195
Cash and bank balances	16	–	6,447,538	–	–	6,447,538
		6,258	6,812,781	7,793,343	–	14,612,382
Financial liabilities						
Trade and other payables	22	–	–	–	10,216,632	10,216,632
Lease liabilities	25	–	–	–	39,778	39,778
Loans and borrowings	26	–	–	–	2,230,000	2,230,000
		–	–	–	12,486,410	12,486,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000	Total US$'000
As of December 31, 2021							
Financial assets							
Quoted equity securities	14	606	–	–	–	606	96
Trade and bills receivable	15	–	3,622,841	3,338,816	–	6,961,657	1,101,145
Other receivables	15	–	140,835	–	–	140,835	22,277
Cash and bank balances	16	–	5,331,555	–	–	5,331,555	843,307
		606	9,095,231	3,338,816	–	12,434,653	1,966,825
Financial liabilities							
Trade and other payables	22	–	–	–	9,775,626	9,775,626	1,546,239
Lease liabilities	25	–	–	–	40,531	40,531	6,410
Loans and borrowings	26	–	–	–	2,203,000	2,203,000	348,454
		–	–	–	12,019,157	12,019,157	1,901,103

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

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

Changes in liabilities arising from financing activities

	January 1, 2020 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Foreign exchange movement RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2020 RMB'000
As of December 31, 2020								
Loans and borrowings								
- current	2,055,046	(326,280)	–	–	1,228	6	–	1,730,000
- non-current	–	500,000	–	–	–	–	–	500,000
Lease liabilities								
- current	28,633	(37,561)	4,039	2,198	–	409	25,037	22,755
- non-current	31,374	–	11,217	–	–	(531)	(25,037)	17,023
Total liabilities from financing activities	2,115,053	136,159	15,256	2,198	1,228	(116)	–	2,269,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in liabilities arising from financing activities (cont'd)

	January 1, 2021 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2021 RMB'000	December 31, 2021 US$'000
As of December 31, 2021								
Loans and borrowings								
- current	1,730,000	(127,000)	–	–	–	500,000	2,103,000	332,637
- non-current	500,000	100,000	–	–	–	(500,000)	100,000	15,817
Lease liabilities								
- current	22,755	(24,940)	1,270	1,819	(54)	26,275	27,125	4,290
- non-current	17,023	–	22,701	–	(43)	(26,275)	13,406	2,120
Total liabilities from financing activities	2,269,778	(51,940)	23,971	1,819	(97)	–	2,243,531	354,864

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

35. SUBSEQUENT EVENT

Incorporation of Beijing Yuchai Xingshunda New Energy Technology Co., Ltd.

On March 15, 2022, the Group announced that a 65-35 partnership company, Beijing Yuchai Xingshunda New Energy Technology Co., Ltd. was incorporated with registered capital of RMB 10.0 million (US$ 1.6 million). This was further to the Company's announcement made on October 20, 2021 that the Group had entered into a cooperation agreement with Beijing Xing Shun Da Bus Co., Ltd., to combine the resources of both partners to accelerate the development, manufacturing and sale of fuel cell powertrain systems as well as core fuel cell power system components for the Beijing, Tianjin and Hebei markets.

REFERENCE INFORMATION

US TRANSFER AGENT AND REGISTRAR

Computershare
PO BOX 505000
Louisville, KY 40233-5000
1-800 522 6645 in US
201-680-6578 outside US

SHAREHOLDER WEBSITE

www.computershare.com/investor

INVESTOR RELATIONS

BlueFocus Communication Group of America
c/o Awaken Advisors
110 East 59th Street
Suite 3200
New York, NY 10022

COMMON STOCK

China Yuchai International Limited
Stock is listed on the New York Stock Exchange
(NYSE: CYD)

AUDITORS

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18,
Singapore 048583

Designed and typeset by
Donnelley Financial Solutions

China Yuchai International Limited

Website: www.cyilimited.com

Operating Office
China Yuchai International Limited
16 Raffles Quay, #39-01A Hong Leong Building
Singapore 048581

Manufacturing Location
Guangxi Yuchai Machinery Company Limited
88 Tianqiao West Road, Yulin, Guangxi 537005
People's Republic of China