



# Exploring New Avenues Engines for the Future



China Yuchai International Limited

Annual Report 2010

## Advancing Towards a Greener Future

- We were the first to launch diesel engines compliant with National IV emission standards;
- We supplied National IV compliant LPG engines for the 2010 Asian Para Games;
- Our National V compliant diesel engines were put into operation in buses in 2010;
- We have the ability to produce National VI compliant diesel engines;
- Our commercial vehicle hybrid diesel engine was recognised as achieving the highest technical standards within China;
- Construction on our new Research & Development Institute located in the High Tech Development Zone of Nanning, the capital of Guangxi Province, is in progress.

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# China Yuchai's Core Ideals

## Vision

- Develop Green Technology and creating value for all stakeholders.

## Mission

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

## 玉柴的核心理念

### 愿景

- 致力绿色环保技术及创造股东财富

### 使命

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

# Financial Highlights

	<b>2010</b>	<b>2009</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
Net revenue	16,208,184	13,175,903
Profit attributable to owners of the Parent*	1,117,297	628,331
Earnings per share attributable to ordinary equity holders of the Parent	29.98	16.86
Weighted average number of shares	37,267,673	37,267,673
Total assets	16,246,263	13,305,911
Equity attributable to owners of the Parent	5,097,947	4,049,331

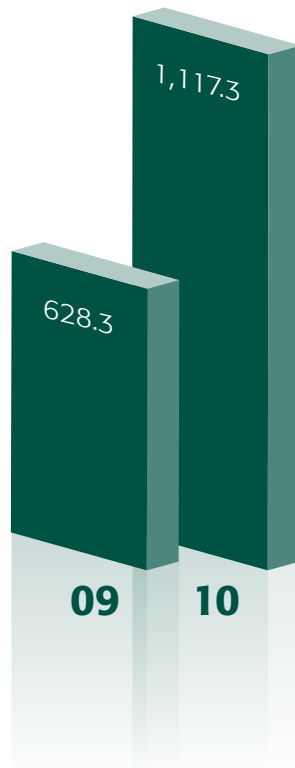
\*The term "Parent" as used here refers to China Yuchai



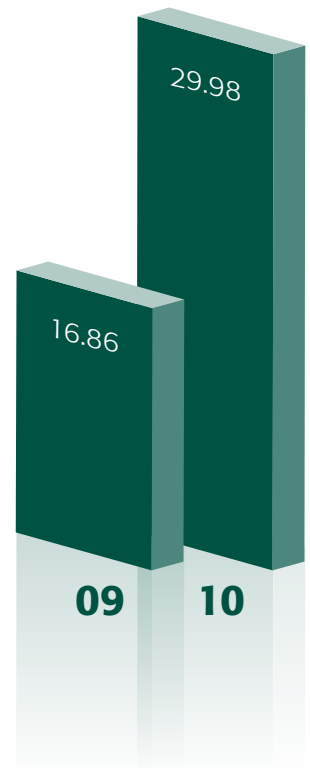
**Net Revenue**  
(in Rmb billions)



**Profit attributable to owners of the Parent**  
(in Rmb billions)



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



# President's Statement



**“RMB 16.2 billion** revenue in 2010 - up by **23.0%**  
Operating profit up **128.2%** to almost RMB **2.0 billion.**”

**Mr. Boo Guan Saw** President, May 20, 2011

Dear Shareholders,

We continued our growth trend in 2010 as we again set new records in net revenues and the number of diesel engines sold. Net revenues increased 23.0% to RMB 16.2 billion (US\$2.5 billion) in 2010 compared with RMB 13.2 billion (US\$2.0 billion) in 2009. Our main operating subsidiary, Guangxi Yuchai Machinery Company Limited (“GYMCL”) sold a total of 551,592 diesel engines during 2010, a 17.9% gain over the 467,899 diesel engines sold in 2009 representing the highest number of units ever sold in the Company’s history. In 2010, our heavy-duty engine sales rose by 72.9% to 64,147 units compared with last year, and represented 10.2% of the heavy-duty engine market. Our medium-duty engine sales rose by 34.5% year-over-year to 218,344 units, comprising approximately 49% of the medium-duty engine market. We are changing our market focus toward building advanced engines for the high-margin, large engine market, even as we target reducing our product costs and increasing sales of light-duty engines at a reasonable margin. We may lose a small market share in the short term, but we will be positioned for future profit expansion. Net revenues in 2010 increased due to greater unit volume, especially in the relatively higher-priced, heavy-duty diesel engine sector, as well as an increase in average unit price during the year.

China’s GDP for 2010 grew by 10.3 percent to reach RMB 39.8 trillion (US\$6.04 trillion), thereby the economy became the world’s second largest in absolute terms. As total vehicle sales for 2010 reached a historic high of 16-million units in China, compared with 11.6 million in the United States, China remains the largest global automotive market. Commercial vehicle sales in 2010 rose to a new peak of over 4.3 million units. Truck sales comprised approximately 3.9 million units of the 4.3 million commercial vehicles sold in 2010, and heavy-duty trucks achieved a 59% increase in year-over-year sales crossing the one million unit level for the first time.

Vehicle sales in 2010 continued to be aided by the Chinese government’s stimulus packages, although some measures were scaled back and others were re-focused on vehicles with improved emissions or greater fuel economy. The ongoing infrastructure construction especially in the central and western parts of China in 2010, created demand for commercial vehicles especially in the second and third tier cities. In addition to construction, demand for heavy-duty trucks increased as China’s limited railway system could not cope with the increased transportation requirements for the shipment of goods. Economic development along new highways and continuing urbanization are expected to sustain the growth of heavy-duty engines to move more goods and people in the future. Transporting more goods at a faster pace and over longer distances is changing the trend in China from medium-duty cycle loading trucks to heavy-duty cycle loading trucks.

Additionally, as a leader in emissions technology in China, our engines were well positioned for the transition to the more stringent National IV emission standard. The National IV emission standard has already been implemented in Beijing and Shanghai in 2008 and 2009 respectively, and it will be implemented nationwide in the future. We were the first manufacturer to begin commercial production of National IV-compliant engines and we are now selling a number of these engines into different market segments. More than 3,000 buses have been purchased by Beijing Public Transportation Holdings since 2007 powered by National IV-certified engines manufactured by us and we are the only domestic diesel engine supplier to this large and important bus company.

In 2010, we also began selling our more advanced National V-compliant diesel engines to the Beijing Public Transportation Holdings, Ltd. We designed and developed the first commercially available National V-compliant diesel engine in China thereby reducing the technology gap compared with foreign manufacturers as we fulfill the Chinese government’s

mandate to reduce emissions and protect the environment. Our diesel engines were awarded the highest honor for public transportation in 2010 by the Guangzhou Municipal Transport Commission. We offer the widest range of engine models in China and almost all bus engine models were utilized in over 95% of the more than 8,800 vehicles used during the 2010 Asian Games and 2010 Asian Para Games. Additionally, during the 2010 Asian Para Games, our National IV compliant Liquefied Petroleum Gas (LPG) engines were in operation for the first time in large numbers. Our engines were noted for being exceptionally reliable during these games, and this performance follows the zero failure rate achieved by our engines during the 2008 Beijing Olympic Games.

In the heavy-duty engine segment, we continued to build our presence in this market in 2010 as we increased our penetration from our marketing initiative which began in the second half of 2009. Our heavy-duty 6L and 6M diesel engines nearly doubled its sales in 2010 compared with a year ago. Our plan is to double our production capacity to 120,000 units annually for the 6L and 6M engines in mid-2011 to meet market demand and help achieve our strategic goal of being a leader in this market segment.

To expand our heavy-duty portfolio with larger, higher capacity engines, in December 2010, our joint venture with CIMC and Chery Automobile, introduced the new YC6K diesel engine possessing a new level of performance and economy to the industry. With a displacement range of 10.5 liters to 14 liters, the YC6K engine is lighter than other large diesel engines, but possesses similar performance rated at 380 to 550 PS. Our joint venture partners are expected to utilize the YC6K in as many as 21 different vehicles they are producing in 2011. The annual production capacity of the joint venture is estimated to be 50,000 heavy-duty diesel engines gradually increasing to 200,000 units. Our other joint ventures also had significant achievements in 2010. In the lower power range market, our joint venture with Geely for the new light-duty 4D20 diesel engines designed for passenger vehicles is on a development schedule for 2012 after some initial delays. These engines will advance the diesel engine options for passenger vehicle owners in China as Geely will use it in a number of different vehicle models. Crankshaft manufacturing at the joint venture facility in Tiantai, Zhejiang Province will begin in the second quarter of 2011 with an expected capacity of 100,000 units to supply to Geely's gasoline engines. Also, the Caterpillar Remanufacturing JV began operations in early 2011 with an estimated total of 180,000 components to be remanufactured in 2011. We expect we will quickly become the remanufacturing leader in China with the combined technology of Caterpillar, our manufacturing capabilities and over 2,300 service centers located throughout China.

A strategic development that occurred during 2010 was the sale of 536 million shares in Thakral Corporation Limited ("TCL") through a placement exercise to various purchasers resulting in our equity interest in TCL being reduced from 34.4% to 13.9%. Further to the sale of additional TCL shares in the open market, we reduced our shareholding in TCL further to 12.2%. From the placement exercise and the conduct by TCL of a capital reduction and cash distribution exercise in 2010, we received approximately US\$ 44.7 million which was used to pay down

our short-term loans and we recognized a RMB 12.7 million (US\$ 1.9 million) gain from the sale of our TCL shares.

Research & Development ("R&D") expenses rose to RMB 324.1 million (US\$ 49.4 million) in 2010 from RMB 297.3 million in 2009. As a percentage of net revenues, R&D costs were 2.0% in 2010 compared with 2.3% in 2009. R&D investment is mostly focused on expanding current engine technology into new market applications, and developing low-emission and higher fuel efficient engines to meet the evolving emission standards in China as well as to protect the environment.

We implemented a number of cost-saving measures during 2010. We negotiated with our suppliers to ensure we received very competitive prices and costs reductions to reduce our expenses. Additionally, our foundry is enabling cost savings as its utilization rate rises. The current capacity is approximately 200,000 cylinder blocks, or 500 molds per day. We are experiencing better quality and lower unit cost for our high-quality, high-performance cast engine blocks and cylinder heads at our new foundry. Upon the completion of the next phase of the foundry expansion, we should have a total capacity, with the old foundry, of nearly 1 million cylinder heads or engine blocks, making us self-reliant. During 2010, we introduced the Lean Six Sigma program which engaged all employees to focus on improving processes with cost savings. Since its introduction, the Lean Six Sigma program has been very well received and we intend to expand the program throughout the whole organization.

We generated approximately RMB 1.5 billion (US\$ 223.4 million) in positive operating cash flow in 2010. Operating profit was almost RMB 2.0 billion (US\$ 297.4 million), a 128.2% rise over 2009. Our gross margin was 24.7% versus 19.3% in 2009, mainly because of the sales growth of our more profitable heavy-duty engines and the reversal of inventory reserves. Net profit attributable to the parent was RMB 1.1 billion (US\$ 170.4 million), or earnings per share of RMB 29.98 (US\$ 4.57). At December 31, 2010, our cash position was RMB 4.1 billion (US\$ 619.4 million) compared with RMB 3.7 billion at the end of 2009. Inventories and trade and bills receivable rose reflecting our higher levels of operations at the end of 2010. In March 2011, GYMCL issued RMB 1 billion in unsecured short-term financing bonds with a fixed annual rate of 4.59% to enhance our working capital and make our accounts receivable more profitable in a rising interest rate environment.

We believe China Yuchai is in its best position ever with strong OEM relationships, a growing service network and new joint ventures in operation to expand our product portfolio with new products. The robust growth rates experienced in the last 2 years is not expected to continue and a more traditional market growth is likely as the Chinese government has announced a shift in its monetary policy to a prudent monetary policy in 2011 which would impact our markets. We are confident that our increasing penetration into the more profitable, heavy-duty diesel engine market, and planned new product introductions including engines up to 40 liters in size will allow access into new markets with the opportunity for increased exports. We look forward to generating greater efficiencies as we grow and continually transform ourselves to meet the challenges ahead.

# 总裁致词

苏武源先生 总裁, 2011年5月20日

尊敬的各位股东:

我们持续在2010年里取得了强劲的增长趋势,且净营业收入额和柴油机的销售量再创新纪录。与2009年132亿元人民币(约合20亿美元)的净收入相比,2010年增加了23.0%,达到162亿元人民币(约合25亿美元)。我们的主要子公司——广西玉柴机器股份有限公司(“广西玉柴”),2010年共售出551,592台柴油机,比2009年467,899台的销售量增加了17.9%,这也创下了公司年度销售量的最高纪录。在2010年,我们重型发动机的销售额比去年增长了72.9%,共售出64,147台,占其市场总销量的10.2%。而中型发动机的销售额比去年增长了34.5%,为218,344台,约占其总市场份额的49%。目前,我们计划在合理的利润空间内,降低轻型发动机的生产成本,并提高其销量;同时,我们正慢慢将市场的重心转向研制更先进的发动机,以期打入高利润的大型发动机市场。虽然在短期内,可能会失去小部分市场份额,但放眼未来,我们将获得更广阔的利润空间。而2010年的净收入涨幅主要依赖于销售量的增加,尤其是在价位相对偏高的重型柴油机领域,另外也源于平均单价的增长。

2010年度,中国国内生产总值增长了10.3%,高达39.8万亿元人民币(约合6.04万亿美元),因此,中国毫无疑问地跻身为世界第二经济大国。在该年度中,中国的汽车总销量创造了1600万台的历史新高,相比于美国1160万台的业绩,中国俨然成为了全球最大的汽车市场。2010年,商用车的销售量已超过430万台的新高峰,其中卡车的销量占了390万台,重型卡车的年销售增长量首次突破100万台,增长率达59%。

在中国政府的鼓励性消费政策下,2010年中国汽车销量仍然持续增长,虽然有其部分措施旨在适度抑制汽车数量的增长及重新关注低排放的节能低碳型车辆。2010年,各地持续进行的基础设施建设也得到了完善,特别是在中西部地区,这也刺激了内陆地区商用车辆的需求,尤其是二、三线城市的刚性需求。其次,由于中国有限的铁路系统已无法满足人们日益增长的货物运输需求,因此国人对重型卡车的需求也日渐凸显。经济日新月异,高速公路建设及城市化进程不断加快,为满足更大的货运和客运需求,人们对重型发动机的需求势必将不断增加。此外,随着人们期望能更快速的将更多的货物运送到更远的地区,这也逐渐促使了由中型运载卡车转向高速重型运载卡车的发展趋势。

作为在中国控制排放量技术的领头人,我们生产的发动机已完全准备好向符合更严格要求的国四排放标准前进发展。国四排放标准已分别于2008年和2009年在北京和上海两大城市率先实行,今后也将推广到全国。我们是同业中首家生产符合国四排放标准柴油机的企业,目前也有部分的这类发动机销往不同的市场。自2007年以来,北京公共交通控股有限公司已购买了3000多辆公共汽车,均配有玉柴生产的符合国四排放标准的柴油机。同时,我们也是这家国内首屈一指的大型巴士公司的唯一指定柴油机供应商。

而在2010年,我们也开始向北京公共交通控股有限公司销售更先进的符合国五排放标准的柴油机,我们设计并研发了中国首个符合国五排放标准的柴油机,从而缩小了与国外生产商的技术差距,也符合了政府节能减排,保护环境的政策。



玉柴生产的柴油机在2010年也荣获了由广州市交通委员会（GMTC）颁发的公共交通最高荣誉奖项。玉柴为中国的市场提供广泛的各类型号发动机，这其中几乎所有巴士发动机型号都被采用，如2010年亚运会和2010年亚洲残运会期间使用的8800多辆车中，95%的车辆都安装了玉柴生产的发动机。此外，在2010年亚洲残运会期间，我们生产的符合国四排放标准的液化石油气发动机（LPG）首次大规模投入使用。经过在赛事中的应用考验，我们的发动机获得了可靠耐用的口碑，这也是在2008年北京奥运会上实现了发动机零故障的佳绩后，玉柴发动机获得的另一次肯定。

在重型发动机领域，我们保持了2009年下半年的良好发展势头，并在2010年进一步扩大其市场占有率。如：我们的6L及6M重型柴油机的销售额较去年同期水平增长了近一倍。我们计划提高6L和6M发动机的生产能力并在2011年中期将产能提高一倍，达到每年12万台，以满足市场需求，实现我们主导该市场的战略目标。

为扩大我们的重型发动机产品组合，开发更大型、高容量的发动机，2010年12月，我们的合资企业联合中集集团与奇瑞汽车公司，推出了高性价比的新型YC6K柴油机。在10.5-14升发动机的排量范围内，YC6K比其他大型柴油机更轻，但性能相似，功率达到380ps至550ps。我们的合资伙伴计划在其2011年生产的21款车辆中使用YC6K柴油机。该合资企业的年产值，预计将达5万台柴油机，并逐年增产至20万台。我们其他的合资项目也在2010年取得了显著成就。在低功耗发动机市场，我们与吉利合资开发的适用于客车的新轻型4D20柴油机，在初步阶段受到些延误后，计划推迟到2012年完成后正式推出。吉利计划将该发动机用于不同的汽车模型，增加了中国消费者的选择。位于浙江天台的合资工厂将在2011年第二季度开始生产制造曲轴，预计达产10万台可供吉利的汽油发动机之用。此外，我们与卡特彼勒合资经营的玉柴再制造合资企业在2011年初开始运营，计划在零部件再制造方面，完成18万件的年产值。卡特彼勒的技术专长，结合我们的制造能力，及2300多个遍布全国的服务中心，相信在不久的将来，我们会迅速成为中国再制造业的引领者。

我们在2010年的另外一个战略行动是，把玉柴国际在Thakral有限公司（“TCL集团”）所持有的5.36亿股通过私募的方式脱售，这直接导致了玉柴国际在TCL的持有股权从34.4%降至13.9%，加上公开发售的部分股权，我们在TCL的股权减至12.2%。通过股票配售以及TCL集团的减资和现金分配活动，我们共收到约4470亿美元的现金，用以偿还短期贷款。同时，通过对TCL股票的配售，我们从中获得1270万元人民币（约合190万美元）的收益。

在研发（“R&D”）经费支出方面，由2009年的2.973亿元人民币上升到了2010年的3.241亿元（约合4940万美元）。2010年的研发费用占净营收的2%，在2009年这一比例是2.3%。研发投资主要用于将目前的发动机技术投向新的市场应用，并研发低排放，高燃油效率的新一代发动机，以适应中国不断提高的排放标准及环保要求。

在2010年期间，我们还开展了一系列节约成本的措施。如：与供应商协商价格，降低成本，控制开支。此外，我们的铸造厂也通过提高使用率，来节省成本。目前的容量约为20万个缸体，或每天500个模具。在新建成的铸造厂，我们正在努力提高品质、降低单位成本，以生产高质量、高性能的引擎机体和气缸盖。下一阶段的铸造扩建完成后，加上旧有铸造厂，我们的总产量将接近100万引擎机体或气缸盖，实现自给自足。另外，我们在2010年期间还推出了精益西格玛方案（Lean Six Sigma），并让所有的员工通过它来学习专注实行降低成本，改进生产流程的节约成效。该方案的试行取得了良好的效果，未来将推广至整个公司集团。

由于2010年良好的现金流运作，我们创造了约15亿元人民币（约合2.234亿美元）的收益。营业利润约达20亿元人民币（约合2.974亿美元），比2009年增长128.2%。我们的毛利率达24.7%，而2009年毛利率约19.3%，这主要归功于高利润的重型发动机销量增大和库存储备的逆转。归属于母公司的净利润为人民币11亿元（约合1.704亿美元），或每股收益为29.98元（约合4.57美元）。到2010年12月31日，我们的现金头寸为人民币41亿元（约合6.194亿美元），相比之下，在2009年底则是37亿元人民币。存货及应收贸易账款及应收票据增加，这反映出2010年年底我们的业务水平有所提高。广西玉柴在2011年3月发行了10亿元人民币无担保的短期债券，固定年利率4.59%，以增加我们的营运资金，使我们的应收账款在上升利率环境中更有利润。

我们相信，目前的中国玉柴正处在前所未有的最好发展阶段，既有与原厂商建立的强有力牢固关系，又有不断添设的服务网点，同时也有新的合资企业正式运作所带来的不断推陈出新的新产品组合。由于2011年中国政府颁布将转向实行稳健的货币政策，因此势必会影响我们的市场，虽然我们很难再期待能保持过去两年的高增长率，但传统市场的增长还是有可能的。我们坚信，随着在高利润的重型柴油机市场不断扩大占有率；陆续推出高达40升排量发动机等新产品，我们必定能开辟新的市场，获得更多出口的机会。我们展望，随着企业的不断成长和自我革新，我们将能迎接未来的挑战，创造更大的效益。

# Corporate Background

China Yuchai International Limited (“CYI”) is a Bermuda holding company established on April 29, 1993. It registered a branch office in Singapore on March 7, 2008. CYI is a subsidiary of Singapore-based Hong Leong Asia Ltd (“Hong Leong Asia”) and it is listed on the New York Stock Exchange, with major operations in China.

CYI’s principal operating subsidiary, Guangxi Yuchai Machinery Company Limited (“GYMCL”) is one of the largest diesel engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL produces and provides a comprehensive range of products from light-duty to heavy-duty diesel engines, complete with parts and diesel-powered generators to meet the needs of different sectors. GYMCL has built a strong reputation among vehicle manufacturers and customers for the performance and reliability of its products as well as its after-sales customer service. CYI currently owns 76.4% of GYMCL’s outstanding shares through six wholly-owned subsidiaries.

CYI has investments in two other companies in Singapore, namely HL Global Enterprises Limited (“HLGE”) and Thakral Corporation Ltd (“TCL”). Currently, CYI holds 48.4% and 12.2% shareholding interest in HLGE and TCL respectively.

The TCL group primarily conducts distribution of consumer electronic products with operations mainly in the People’s Republic of China (PRC), including Hong Kong. TCL also has other business activities relating to strategic, property development and equity investments. HLGE core businesses are hospitality operations and property development.

Both TCL and HLGE are listed on the Main Board of the Singapore Exchange Securities Trading Limited.

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## 公司背景

中国玉柴国际有限公司（“玉柴国际”或“CYI”）于1993年4月29日在百慕达注册成立并于2008年3月7日在新加坡登记成立分公司。玉柴国际是新加坡的丰隆亚洲有限公司（“丰隆亚洲”）旗下的附属公司并在纽约证券交易所上市，其主要运营地区和业务范围分布在中国。

广西玉柴机器股份有限公司（“广西玉柴”或“GYMCL”）是玉柴国际旗下的主要子公司，它也是中国最大的柴油机制造商之一。广西玉柴位于中国南部广西壮族自治区的玉林市，公司生产制造及销售多样化的机型产品，从轻型柴油机、重型柴油机，至零部件和柴油驱动引擎等各型产品，以满足不同市场的需求。广西玉柴以其高效可靠的产品性能及卓越的售后服务在汽车制造商和消费者中享有极高的声誉。通过6家全资子公司，目前玉柴国际持有广西玉柴76.4%的股权。

此外，玉柴国际还在新加坡投资了另外两家公司，即 HL Global Enterprises Limited（“HLGE”）和 Thakral Corporation Ltd（“TCL”）。玉柴国际目前分别持有HLGE之48.4%及TCL之12.2%的股权。

TCL集团主要从事消费类电子产品的分销，其商业运营主要分布于包括香港在内的中国地区。除了消费类电子产品，TCL还涉足战略管理、房地产开发及股本投资等其它业务。HLGE的核心业务是酒店经营与房地产开发。

TCL和HLGE均在新加坡证券交易所主板上市。

# Our China-Wide Presence



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 Guangxi Yuchai Machinery Company Limited  
公司总部

 Regional Sales Offices  
玉柴办事处

 Customer Service Stations  
玉柴技术服务站

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# Directors and Executive Officers of the Company

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

Our directors and executive officers are identified below.

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

## Management Team

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming <sup>(1)(4)</sup>	Chief Financial Officer	2008
FOO Shing Mei Deborah	General Counsel	2007
Ira Stuart OUTERBRIDGE III	Secretary	2001

Mr Teo Tong Kooi resigned as a director of the company on November 18, 2010.

\* Appointed to the Audit Committee on April 25, 2011 pursuant to the exemption under Rule 10A-3(b)(iv)(D) under the Securities Exchange Act of 1934.

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

# Board of Directors

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

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

**Mr. Kwek Leng Peck** is a Director of the Company. He is a member of the Kwek family which controls the Hong Leong Investment Holdings group of companies. He is an Executive Director of and with effect from November 18, 2011, the acting Chief Executive Officer of Hong Leong Asia. Mr Kwek ceased to serve as the acting Chief Executive Officer of Hong Leong Asia with effect from May 18, 2011. He is also the non-executive Chairman of Tasek Corporation Berhad. He also sits on the boards of HL Technology, Hong Leong China, GYMCL, City Developments Limited, Hong Leong Finance Limited and Millennium & Copthorne Hotels plc. He holds a Diploma in Accountancy and has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

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

**Mr. Neo Poh Kiat** is a Director of the Company and GYMCL. He is Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd., a financial advisory firm in Singapore. Between 1976 and January 2005, he held senior managerial positions with companies in the Development Bank of Singapore group and United Overseas Bank Ltd, including as Country Officer (China), Head – Corporate Banking (Greater China) at United Overseas Bank Ltd. Mr. Neo is currently a director of Sing-Han Management Consulting (Shanghai) Limited, Asia Airfreight Terminal Co Ltd and Credit China Holdings 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. Tan Aik-Leang** is a Director of the Company and GYMCL. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan is currently also a Director of the Risk Management Association, Hong Kong Chapter. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

# Board of Directors

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

**Mr. Ching Yew Chye** is a Director of the Company. He is also an independent Director of HSBC Bank Malaysia Bhd, Avenue Invest Bhd and Petronas Chemicals Group Berhad. Mr. Ching is also a member of the advisory board of Yorkville Advisors HK Ltd. Mr. Ching joined a global management and technology consulting firm, Accenture in 1982 and during his career with Accenture, Mr. Ching worked primarily with clients in the financial services industry in ASEAN, with assignments included strategic information planning, design and implementation of major IT system, and bank reorganization arising from mergers. Until his retirement in 2007, Mr. Ching assumed various regional senior management roles at Accenture, including Managing Partner of the Financial Services Industry Group (Asia), Geographic Council Chairman (Asia) and Managing Partner for South Asia Region. Mr Ching graduated with a BSc (Hons) from the University of London in 1976. Our Board of Directors has determined that Mr. Ching 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. Zhang Shi Yong** is a Director of the Company and GYMCL. He also sits on the boards of the State Holding Company, Coomber and Goldman. Mr. Zhang was a director of City Construction Investment Company of Yulin. He holds a Bachelor of Traffic and Transportation Degree from Xinan Jiaotong University and a Master of Business Administration Degree from the Tsing Hua University.

**Mr. Han Yi Yong** is a Director of the Company and GYMCL. He is also the Chief Executive Officer, Chairman and a director of Coomber as well as the Company Secretary to GYMCL's Board of Directors. He holds a Bachelor's Degree in Vehicle Engineering from the Shandong University of Technology and a Master's Degree in Power Machinery and Engineering from Guangxi University.

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

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

**Mr. Ira Stuart Outerbridge III** is the Secretary of the Company. He is a graduate of the University of North Carolina at Chapel Hill and is a Fellow of the Institute of Chartered Secretaries and Administrators. He joined Codan Services Limited, the Company's secretarial agent in Bermuda, as a Corporate Manager in February 1986.

# Corporate Governance

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

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

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

# Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<p><b>Director Independence</b></p> <ul style="list-style-type: none"> <li>A majority of the board must consist of independent directors.</li> </ul>	<ul style="list-style-type: none"> <li>Four of our ten directors, Messrs. Neo Poh Kiat, Tan Aik-Leang, Matthew Richards and Ching Yew Chye are independent within the meaning of the NYSE standards.</li> </ul>
<ul style="list-style-type: none"> <li>Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over \$120,000 per year in direct compensation from the listed company are not independent.</li> </ul> <p>Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.</p>	
<ul style="list-style-type: none"> <li>The non-management directors of each company must meet at regularly scheduled executive sessions without management.</li> </ul>	<ul style="list-style-type: none"> <li>Our non-management directors do not meet periodically without management directors.</li> </ul>
<p><b>Audit Committee</b></p>	
<ul style="list-style-type: none"> <li>Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee meets the requirements of the Rule 10A-3 under the Exchange Act. One of the members of our audit committee, Mr. Tan Eng Kwee, qualifies for the exemption under Rule 10A-3(b)(iv)(D) under the Securities Exchange Act of 1934.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee currently consists of four members, three of whom meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act and the fourth appointed pursuant to the exemption under Rule 10A-3(b)(1)(iv)(D) under the Securities Exchange Act of 1934.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee must have a written charter that addresses the committee's purpose and responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of US companies.</li> </ul>



# Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<ul style="list-style-type: none"> <li>At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US companies.</li> </ul>

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<ul style="list-style-type: none"> <li>The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.</li> </ul>	<ul style="list-style-type: none"> <li>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 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 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.</li> </ul>
<ul style="list-style-type: none"> <li>Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.</li> </ul>	<ul style="list-style-type: none"> <li>The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.</li> </ul>
<ul style="list-style-type: none"> <li>Each listed company must have an internal audit function.</li> </ul>	<ul style="list-style-type: none"> <li>We are a holding company and the majority of business is done at our main subsidiary, Guangxi Yuchai Machinery Company Limited ("Yuchai"). Our group transactions, fees and expenses are reviewed by the Internal Audit Department of Hong Leong Asia. In addition, Yuchai maintains an independent internal audit function, headed by an internal audit manager who reports to the Audit Committee of Yuchai's Board which approves the audit plans, reviews significant audit issues and monitors corrective actions taken by management.</li> </ul>

# Corporate Governance

<b>Compensation Committee</b>	
<ul style="list-style-type: none"> <li>Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.</li> </ul>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities.</li> </ul>	
<ul style="list-style-type: none"> <li>These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.</li> </ul>
<b>Nominating/Corporate Governance Committee</b>	
<ul style="list-style-type: none"> <li>Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.</li> </ul>	<ul style="list-style-type: none"> <li>We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.</li> </ul>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.</li> </ul>	
<b>Equity-Compensation Plans</b>	
<ul style="list-style-type: none"> <li>Shareholders must be given the opportunity to vote on all equity- compensation plans and material revisions thereto, with limited exceptions.</li> </ul>	<ul style="list-style-type: none"> <li>We intend to have our shareholders approve equity-compensation plans.</li> </ul>

# Corporate Governance

<b>Corporate Governance Guidelines</b>	
<ul style="list-style-type: none"><li>Listed companies must adopt and disclose corporate governance guidelines.</li></ul>	<ul style="list-style-type: none"><li>We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.</li></ul>
<b>Code of Business Conduct and Ethics</b>	
<ul style="list-style-type: none"><li>All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.</li></ul>	<ul style="list-style-type: none"><li>We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. The text of the Code is posted on our internet website at <a href="http://www.cylimited.com/invest_govt.asp">http://www.cylimited.com/invest_govt.asp</a>. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.</li></ul>



## Financial Report

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# Report of Independent Registered Public Accounting Firm

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

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). China Yuchai International Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in controls related to: (1) elimination of intercompany transactions and balances at Yuchai; and (2) the preparation of consolidation entries relating to purchase price allocation adjustments for its HLGE subsidiary.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of China Yuchai International Limited and its subsidiaries (the "Group") as of December 31, 2010 and 2009 and January 1, 2009, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2010 financial statements and this report does not affect our report dated May 9, 2011, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, China Yuchai International Limited has not maintained effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

Ernst & Young LLP  
Singapore  
May 9, 2011

# Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited and its subsidiaries (the "Group") as of December 31, 2010 and 2009 and January 1, 2009, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited and subsidiaries as of January 1, 2009, December 31, 2009 and December 31, 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The statements of financial position as of January 1, 2009 and December 31, 2009 have been restated for a reclassification of investments in joint ventures from property plant and equipment and the reclassification of interest-bearing loans and borrowings from non-current to current liabilities, as disclosed in Note 4.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 9, 2011, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Ernst & Young LLP  
Singapore  
May 9, 2011

# Consolidated Income Statements

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

	<u>Note</u>	<u>31.12.2008</u> <u>Rmb'000</u>	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
<b>Continuing operations</b>					
Sales of goods	8	10,358,124	13,139,578	16,138,580	2,461,500
Rendering of services	8	46,664	36,325	69,604	10,616
<b>Revenue</b>	8	<u>10,404,788</u>	<u>13,175,903</u>	<u>16,208,184</u>	<u>2,472,116</u>
Cost of sales (goods)		(8,328,058)	(10,612,260)	(12,112,215)	(1,847,388)
Cost of sales (services)		(27,594)	(17,825)	(87,038)	(13,275)
<b>Gross profit</b>		<u>2,049,136</u>	<u>2,545,818</u>	<u>4,008,931</u>	<u>611,453</u>
Other operating income	9.2a	28,465	93,668	129,075	19,687
Other operating expenses	9.2b	(9,005)	(16,113)	(41,447)	(6,322)
Research and development costs	9.1, 9.3	(184,794)	(297,259)	(324,123)	(49,436)
Selling, distribution and administrative costs	9.1	(1,268,060)	(1,471,857)	(1,822,764)	(278,013)
<b>Operating profit</b>		<u>615,742</u>	<u>854,257</u>	<u>1,949,672</u>	<u>297,369</u>
Finance costs	9.4	(150,409)	(77,493)	(130,446)	(19,896)
Share of profit of associates	6	2,717	2,954	(121)	(18)
Share of results of joint ventures	7	13,692	(16,000)	(53,902)	(8,221)
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	31	—	202,950	—	—
<b>Profit before tax from continuing operations</b>		<u>481,742</u>	<u>966,668</u>	<u>1,765,203</u>	<u>269,234</u>
Income tax expense	10	(110,526)	(147,223)	(327,946)	(50,019)
<b>Profit for the year from continuing operations</b>		<u>371,216</u>	<u>819,445</u>	<u>1,437,257</u>	<u>219,215</u>
<b>Discontinued operations</b>					
(Loss)/profit after tax for the year from discontinued operations	11	(33,985)	13,022	12,655	1,930
<b>Profit for the year</b>		<u>337,231</u>	<u>832,467</u>	<u>1,449,912</u>	<u>221,145</u>
<b>Attributable to:</b>					
Owners of the Parent		240,036	628,331	1,117,297	170,413
Non-controlling interests		97,195	204,136	332,615	50,732
		<u>337,231</u>	<u>832,467</u>	<u>1,449,912</u>	<u>221,145</u>
<b>Earnings per share</b>					
For profit from continuing operations:					
- basic, profit for the year attributable to ordinary equity holders of the Parent		7.35	16.51	29.64	4.52
- diluted, profit for the year attributable to ordinary equity holders of the Parent		7.35	16.51	29.64	4.52
For profit for the year:					
- basic, profit for the year attributable to ordinary equity holders of the Parent		6.44	16.86	29.98	4.57
- diluted, profit for the year attributable to ordinary equity holders of the Parent		6.44	16.86	29.98	4.57
Weighted average number of shares					
- basic		37,267,673	37,267,673	37,267,673	37,267,673
- diluted		37,267,673	37,267,673	37,267,673	37,267,673

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

# Consolidated Statements of Comprehensive Income

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

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
<b>Profit for the year</b>	337,231	832,467	1,449,912	221,145
<b>Other comprehensive (loss)/income</b>				
Foreign currency translation	10,343	(11,201)	(22,084)	(3,369)
Share of other comprehensive (loss)/ income of associates	(90,265)	21,038	—	—
Others	4,740	(647)	—	—
Other comprehensive (loss)/income for the year, net of tax	<u>(75,182)</u>	<u>9,190</u>	<u>(22,084)</u>	<u>(3,369)</u>
<b>Total comprehensive income for the year, net of tax</b>	<u>262,049</u>	<u>841,657</u>	<u>1,427,828</u>	<u>217,776</u>
Attributable to:				
Owners of the Parent	151,984	640,908	1,102,048	168,087
Non-controlling interests	110,065	200,749	325,780	49,689
	<u>262,049</u>	<u>841,657</u>	<u>1,427,828</u>	<u>217,776</u>

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



# Consolidated Statements of Financial Position

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

	<u>Note</u>	<u>1.1.2009</u> <u>Rmb'000</u> <u>(Restated)</u>	<u>31.12.2009</u> <u>Rmb'000</u> <u>(Restated)</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	2,548,736	2,975,169	3,276,302	499,711
Investment properties	14	34,146	33,852	35,811	5,462
Prepaid operating leases	15	159,156	355,931	407,468	62,148
Goodwill	16	212,636	212,636	212,636	32,432
Intangible assets	17	—	—	13,389	2,042
Investment in associates	6	328,600	39,644	38,610	5,889
Investment in joint ventures	7	336,016	368,025	514,313	78,444
Other receivables	18	61,475	72,183	65,533	9,995
Deferred tax asset	10	145,233	241,718	294,934	44,984
Other investments		6,765	6,761	6,364	971
		<u>3,832,763</u>	<u>4,305,919</u>	<u>4,865,360</u>	<u>742,078</u>
<b>Current assets</b>					
Inventories	21	2,250,044	2,130,026	2,632,860	401,571
Trade and bills receivables	23	2,538,135	2,506,701	4,234,475	645,854
Prepayments		150,581	97,092	107,834	16,447
Other receivables	24	223,686	181,550	211,126	32,202
Income tax recoverable		46,296	6,680	3,964	604
Prepaid operating leases	15	6,151	7,273	11,004	1,678
Other current assets	22	96,293	91,202	118,650	18,097
Cash and cash equivalents	25	823,695	3,657,981	4,060,990	619,393
		<u>6,134,881</u>	<u>8,678,505</u>	<u>11,380,903</u>	<u>1,735,846</u>
Assets classified as held for sale	11	—	321,487	—	—
		<u>6,134,881</u>	<u>8,999,992</u>	<u>11,380,903</u>	<u>1,735,846</u>
		<u>9,967,644</u>	<u>13,305,911</u>	<u>16,246,263</u>	<u>2,477,924</u>
<b>Total assets</b>					
<b>Equity and liabilities</b>					
<b>Equity attributable to owners of the Parent</b>					
Issued capital	26	1,724,196	1,724,196	1,724,196	262,979
Preference shares	26	36	36	21	3
Statutory reserves	28	287,473	291,686	292,064	44,546
Capital reserves		2,942	2,942	2,932	447
Retained earnings		1,527,006	2,125,059	3,178,910	484,856
Other components of equity		(96,473)	(84,927)	(100,176)	(15,279)
Reserve of asset classified as held for sale		—	(9,661)	—	—
		<u>3,445,180</u>	<u>4,049,331</u>	<u>5,097,947</u>	<u>777,552</u>
Non-controlling interests		<u>1,169,779</u>	<u>1,360,459</u>	<u>1,687,980</u>	<u>257,455</u>
		<u>4,614,959</u>	<u>5,409,790</u>	<u>6,785,927</u>	<u>1,035,007</u>
<b>Total equity</b>					

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

# Consolidated Statements of Financial Position

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

	<u>Note</u>	<u>1.1.2009</u> <b>Rmb'000</b> <b>Restated</b>	<u>31.12.2009</u> <b>Rmb'000</b> <b>Restated</b>	<u>31.12.2010</u> <b>Rmb'000</b>	<u>31.12.2010</u> <b>Rmb'000</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	19(b)	176,756	411,875	201,850	30,787
Other liabilities	19(a)	2,080	26,877	18,869	2,878
Deferred tax liability	10	16,158	31,840	77,274	11,786
Deferred grants	20	—	176,035	269,736	41,141
		<u>194,994</u>	<u>646,627</u>	<u>567,729</u>	<u>86,592</u>
<b>Current liabilities</b>					
Trade and other payables	29	3,604,128	6,190,246	7,902,317	1,205,283
Interest-bearing loans and borrowings	19(b)	1,148,732	667,173	423,543	64,600
Provision for taxation		13,277	122,308	204,850	31,245
Other liabilities	19(a)	5	10,233	9,743	1,486
Provision for product warranty	30	188,599	259,534	352,154	53,711
Deferred gain	31	202,950	—	—	—
		<u>5,157,691</u>	<u>7,249,494</u>	<u>8,892,607</u>	<u>1,356,325</u>
Total liabilities		<u>5,352,685</u>	<u>7,896,121</u>	<u>9,460,336</u>	<u>1,442,917</u>
<b>Total equity and liabilities</b>		<u>9,967,644</u>	<u>13,305,911</u>	<u>16,246,263</u>	<u>2,477,924</u>

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

# Consolidated Statements of Changes in Equity

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

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

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

# Consolidated Statements of Changes in Equity

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

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

**Note (i):** The revaluation reserve arises from the changes in the net fair value of investment in Thakral Corporation Limited (an associate of the Group).

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

# Consolidated Statements of Changes in Equity

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 26)	Preference shares (Note 26)	Statutory reserves (Note 28)	Capital reserves	Retained earnings	Reserve of asset classified as held for sale (Note 11)	Foreign currency translation reserve	Per-formance shares reserve	Premium paid for acquisition of non-controlling interests	Total equity		
											Rmb'000	Rmb'000
At January 1, 2010	1,724,196	36	291,686	2,942	2,125,059	(9,661)	(74,150)	(85)	(10,692)	4,049,331	1,360,459	5,409,790
Profit for the year	—	—	—	—	1,117,297	—	—	—	—	1,117,297	332,615	1,449,912
Other comprehensive income	—	—	—	—	—	—	(15,249)	—	—	(15,249)	(6,835)	(22,084)
Total comprehensive income for the year	—	—	—	—	1,117,297	—	(15,249)	—	—	1,102,048	325,780	1,427,828
Transfer to statutory reserves	—	—	378	—	(378)	—	—	—	—	—	—	—
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	(44,631)	(44,631)
Dividends declared (US\$0.25 per share) (Note 27)	—	—	—	—	(63,078)	—	—	—	—	(63,078)	—	(63,078)
Liquidation of subsidiaries	—	—	—	(10)	10	—	—	—	—	—	(2,943)	(2,943)
Non-controlling interests arising from increase in share capital of subsidiaries	—	—	—	—	—	—	—	—	—	—	48,000	48,000
Conversion of NCCPS	—	(15)	—	—	—	—	—	—	—	(15)	15	—
Conversion of RCPS B	—	—	—	—	—	—	—	—	—	—	1,300	1,300
Realization of reserves upon disposal of asset classified as held for sale	—	—	—	—	—	9,661	—	—	—	9,661	—	9,661
At December 31, 2010	1,724,196	21	292,064	2,932	3,178,910	—	(89,399)	(85)	(10,692)	5,097,947	1,687,980	6,785,927
US\$	262,979	3	44,546	447	484,856	—	(13,635)	(13)	(1,631)	777,552	257,455	1,035,007

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

# Consolidated Statements of Cash Flows

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

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
<b>Operating activities</b>				
Profit before tax from continuing operations	481,742	966,668	1,765,203	269,234
(Loss) / profit before tax from discontinued operations	(33,731)	14,321	12,655	1,930
Profit before tax, total	448,011	980,989	1,777,858	271,164
Non-cash adjustment to reconcile profit before tax to net cash flows				
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	—	(202,950)	—	—
Allowance for doubtful debts made/(written back) (net)	25,349	(41,162)	(21,725)	(3,314)
Allowance for stock obsolescence made/(written back) (net)	52,747	154,700	(111,763)	(17,046)
Depreciation of property, plant and equipment and investment properties	265,834	277,332	275,136	41,964
Amortization of prepaid operating leases	6,794	7,982	11,004	1,678
Dividend income from associates	—	(11,162)	—	—
Impairment of property, plant and equipment and prepaid operating leases	69,930	7,785	1,372	209
Write off of property, plant & equipment	912	5,723	2,447	373
Write (back) / off of trade and other payables	(869)	(23,649)	5,249	801
Write back of provision for impairment of receivables-Malkn	—	(4,895)	—	—
Write back of impairment of investment in joint ventures	—	—	(10,936)	(1,668)
Impairment of goodwill	5,675	—	—	—
Share of net (profit) / loss of associates and joint ventures	(16,409)	13,046	54,023	8,239
Loss on other investments	153	—	—	—
Negative goodwill	(12,368)	—	—	—
Exchange loss / (gain) on financing activities	3,172	6,543	(19,975)	(3,047)
Loss on disposal of property, plant and equipment	3,525	8,618	33,670	5,135
Gain on disposal of associates	—	(1,906)	(707)	(108)
Gain on disposal of a subsidiary	—	—	(2,833)	(432)
Tax refund on reinvestment of net foreign dividend	(2,440)	—	—	—
Loss on disposal of other investment	—	—	261	40
Finance costs	150,409	77,493	130,446	19,896
Interest income	(15,228)	(31,576)	(61,719)	(9,414)
Profit from discontinued operations	33,985	(13,022)	(12,655)	(1,930)
Fair value gain on held for trading investment securities	—	—	(17,123)	(2,612)
<b>Changes in working capital</b>				
Increase in inventories	(653,827)	(49,006)	(409,118)	(62,401)
Decrease / (increase) in trade and other receivables	338,716	290,601	(1,762,932)	(268,887)
Increase in trade and other payables	3,064	2,565,933	1,739,923	265,380
Decrease in balances with related parties	89,591	24,953	90,243	13,764
(Decrease) / increase in balances with holding company	(3,577)	2,022	(8,406)	(1,282)
Decrease in development properties	4,816	5,393	33,747	5,147
Income taxes paid	(100,785)	(80,427)	(250,523)	(38,209)
<b>Net cash flows from operating activities</b>	<b>697,180</b>	<b>3,969,358</b>	<b>1,464,964</b>	<b>223,440</b>

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

# Consolidated Statements of Cash Flows

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

	<u>31.12.2008</u>	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2010</u>
	Rmb'000	Rmb'000	Rmb'000	US\$'000
<b>Investing activities</b>				
Acquisition/additional investment in subsidiaries, net of cash acquired	(11,624)	—	—	—
Acquisition/additional investment in associates & joint ventures	(1,069)	(69,400)	(191,906)	(29,270)
Dividends received from associates	—	16,931	—	—
Dividends received from joint ventures	10,476	19,122	1,733	264
Interest received	88,487	31,578	61,719	9,414
Purchase of other investments	—	(82)	—	—
Proceeds from disposal of other investments	—	—	169	26
Payment for prepaid operating leases	—	(205,879)	(66,300)	(10,113)
Additions of intangible asset	—	—	(13,389)	(2,042)
Proceeds from sale of property, plant and equipment	37,789	64,745	30,410	4,638
Purchase of property, plant and equipment and construction in progress (includes interest capitalized)	(376,440)	(780,836)	(629,626)	(96,032)
Proceeds from disposal of a subsidiary, net of cash	2,440	—	1,902	290
Proceeds from disposal of assets classified as held for sale	—	—	302,655	46,162
Proceeds from disposal of associates	—	1,906	4,000	610
Acquisition of a non-controlling interests	—	(29,998)	—	—
Proceeds from redemption of preference shares in an associate	—	551	—	—
Proceeds from government grants	31,514	150,917	112,592	17,173
<b>Net cash flows used in investing activities</b>	<u>(218,427)</u>	<u>(800,445)</u>	<u>(386,041)</u>	<u>(58,880)</u>
<b>Financing activities</b>				
Dividends paid to non-controlling interests	(33,473)	(27,988)	(44,631)	(6,807)
Dividends paid to equity holders of the parent	(25,886)	(25,457)	(63,078)	(9,621)
Interest paid	(194,579)	(93,433)	(146,014)	(22,270)
Payment of finance lease liabilities	—	(5,014)	(7,240)	(1,104)
Proceeds from borrowings	1,093,528	998,402	472,620	72,085
Repayment of borrowings	(1,287,397)	(1,256,441)	(926,275)	(141,278)
Capital contributions from non-controlling interests	49,231	37,225	48,000	7,321
Fixed deposits pledged with banks for banking facilities	5	(19)	(10)	(2)
Proceeds from sale and leaseback arrangement	—	40,000	—	—
<b>Net cash flows used in financing activities</b>	<u>(398,571)</u>	<u>(332,725)</u>	<u>(666,628)</u>	<u>(101,676)</u>

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

# Consolidated Statements of Cash Flows

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

	<u>31.12.2008</u>	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2010</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Net increase in cash and cash equivalents	80,182	2,836,188	412,295	62,884
Cash and cash equivalents at 1 January	759,837	823,695	3,657,981	557,925
Effect of exchange rate changes on balances in foreign currencies	(16,324)	(1,902)	(9,286)	(1,416)
<b>Cash and cash equivalents at 31 December</b>	<u>823,695</u>	<u>3,657,981</u>	<u>4,060,990</u>	<u>619,393</u>

## Significant non-cash investing and financing transactions

For the years ended December 31, 2008, December 31, 2009 and December 31, 2010, certain customers settled their debts with trade bills amounting to Rmb 6,803, Rmb 10,552 and Rmb 9,232 respectively. These outstanding trade bills were classified as bills receivables in the financial statements.

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



# Notes to the Consolidated Financial Statements

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

## 1. Corporate information

The consolidated financial statements of China Yuchai International Limited and its subsidiaries (the "Group") for the year ended December 31, 2010 were authorized for issue in accordance with a resolution of the directors on May 9, 2011. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581.

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

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

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

Yuchai established three direct subsidiaries, Yuchai Machinery Monopoly Company Limited ("YMMC"), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ("YAMC") (previously known Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited) and Yuchai Express Guarantee Co., Ltd. ("YEGCL"). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants' purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2010. As at December 31, 2010, Yuchai held an equity interest of 71.83%, 97.14% and 100.0% respectively in these companies. As at December 31, 2009 and 2010, YMMC had direct controlling interests in thirty one subsidiaries, which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC. In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd. This new subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, Fujian province in China.

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

# Notes to the Consolidated Financial Statements

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

## 1. Corporate information (cont'd)

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

On December 11, 2009, Yuchai, pursuant to a Joint-Venture Agreement entered into with Caterpillar (China) Investment Co., Ltd. ("Caterpillar"), incorporated Yuchai Remanufacturing Services Co., Ltd. ("Yuchai Remanufacturing") in Suzhou, Jiangsu province to provide remanufacturing services for and relating to Yuchai's diesel engines and components and certain Caterpillar's diesel engines and components. The registered capital of the Yuchai Remanufacturing is US\$200,000,000. Yuchai holds 51% and Caterpillar holds the remaining 49% in the joint venture.

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

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

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

# Notes to the Consolidated Financial Statements

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

## 1. Corporate information (cont'd)

On July 7, 2010, TCL made payment of cash distribution to shareholders pursuant to the Capital Reduction Exercise. Subsequent to the cash distribution, the Company began to sell its shares in TCL in the market. As of December 31, 2010, 580,253,000 shares in TCL have been disposed of and the Company's shareholding interest in TCL has reduced from 34.4% to 12.2%. In line with the decrease of the Company's shareholding interest in TCL, the Company's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2010, the Company does not exercise significant influence over the operating and financial policies of TCL. The Company's investment in TCL is classified as held for trading as they are held for the purpose of selling in the near term. The Company's investment in TCL is measured at fair value with changes in fair value recognised in other income in the income statement. Please refer to note 11.

On February 7, 2006, the Company acquired 29.1% of the ordinary shares of HL Global Enterprises Limited ("HLGE"). HLGE is a public company listed on the main board of the Singapore Exchange. HLGE is primarily engaged in investment holding, and through its group companies, invests in rental property, hospitality and property developments in Asia. On November 15, 2006, the Company exercised its right to convert all of its 196,201,374 non-redeemable convertible cumulative preference shares ("NCCPS") into 196,201,374 new ordinary shares in the capital of HLGE. Upon the issue of the new shares, the Company's equity interest in HLGE has increased to 45.4% of the enlarged total number of ordinary shares in issue. During the year ended December 31, 2007, the Company did not acquire new shares in HLGE. However, new ordinary shares were issued by HLGE arising from the third party's conversion of non-redeemable convertible cumulative preference shares, and the Company's interest in HLGE was diluted to 45.4%. On March 26, 2010, the Company converted 17,300,000 of RCPS B shares into HLGE ordinary shares. On September 24, 2010, the Company further converted 16,591,000 of RCPS B shares into HLGE ordinary shares. Meanwhile, 154,758 of new ordinary shares were issued by HLGE arising from third parties' conversion of NCCPS. As of 31 December 2010, the Company's interest in HLGE increased from 45.4% to 47.4%.

The Company considers its ability to exercise the potential voting privileges in the RCPS instruments in HLGE when assessing the entity's power to govern the financial and operating policies of HLGE and concluded that the Company has the ability to control HLGE. Consequently, the Company consolidated HLGE with effect from November 15, 2006. If all the RCPS were fully converted to ordinary shares, the Company's interest in HLGE would exceed 50%.

As at December 31, 2009, four directors out of eight directors on the board of HLGE were appointed by the Company. As at December 31, 2010, three directors out of seven directors on the board of HLGE were appointed by the Company.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

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

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

# Notes to the Consolidated Financial Statements

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

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

### **2.2 Summary of significant accounting policies**

#### **Basis of consolidation**

*Basis of consolidation from January 1, 2010*

The consolidated financial statements comprise the financial statements of China Yuchai International Limited and its subsidiaries as at December 31, 2010.

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

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

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Transactions with non-controlling interest are accounted for using the entity concept method whereby, transactions with non-controlling interests are accounted for as transactions with owners.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

# Notes to the Consolidated Financial Statements

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

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

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

#### Basis of consolidation (cont'd)

*Basis of consolidation prior to January 1, 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest ("NCI") until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

#### (a) Business combinations and goodwill

*Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in "Selling, distribution and administrative costs".

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

# Notes to the Consolidated Financial Statements

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

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

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

#### (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 recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised 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 forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Business combinations prior to January 1, 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

# Notes to the Consolidated Financial Statements

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

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

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

#### **(b) Investments in associates**

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

#### **(c) Investments in joint ventures**

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

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

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

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

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

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

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



# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

#### (e) Foreign currency translation

The Company's functional currency is US dollar. The Group's consolidated financial statements are presented in Renminbi (Rmb), 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 entities at their respective functional currency rates prevailing at the date of the transaction.

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

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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.

# Notes to the Consolidated Financial Statements

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

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

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

#### (e) Foreign currency translation (cont'd)

##### **Group companies**

The assets and liabilities of the Company and its subsidiaries whose functional currency is not Rmb are translated into Rmb at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the US dollar convenience translation amounts included in the accompanying consolidated financial statements, the Rmb equivalent amounts have been translated into US dollars at the rate of Rmb 6.5564 = US\$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on March 31, 2011. No representation is made that the Rmb amounts could have been, or could be, converted into US dollars at that rate or at any other rate prevailing on March 31, 2011 or any other date.

#### (f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

##### **Interest income**

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

##### **Rental income**

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

##### **Dividends**

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

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

#### (g) Taxes

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

##### **Deferred tax**

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or 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; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where 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 recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 utilised, except:

- Where 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; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

#### **Sales tax**

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

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

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

#### (h) Government grants

Government grants are recognised 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 recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset. Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the relevant asset by equal annual installments.

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

##### **Financial assets**

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

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

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

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

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

##### **Subsequent measurement**

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

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

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

The Group has designated its remaining 12.2% shareholding interest in Thakral Corporation Ltd. ("TCL") as financial assets at fair value through profit or loss.

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

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

The Group did not have any held-to-maturity investments during the years ended December 31, 2010 and 2009.

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

##### ***Available-for-sale financial investments (cont'd)***

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

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

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

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

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

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

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

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



# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

##### **Financial liabilities**

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

##### ***Subsequent measurement***

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

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

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

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

##### **Offsetting of financial instruments**

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

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

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

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

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

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

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or 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 recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

The Group capitalizes interest with respect to major assets under installation or construction based on the 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 capitalised as construction in progress.

#### (l) Leases

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

# Notes to the Consolidated Financial Statements

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

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

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

#### (I) Leases (cont'd)

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

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

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

#### **(m) Borrowing costs**

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

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

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2008.

#### **(n) Research and development expenses**

Research costs are expensed as incurred. The Group received research and development subsidies of Rmb 43,610 and Rmb 46,080 (US\$7,028) for the years ended December 31, 2009 and 2010 respectively.

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

Development expenditures, on an individual project, are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it 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, and the ability to measure reliably the expenditures during development.

Capitalised development expenditures are stated at cost less accumulated amortisation and impairment losses. As of December 31, 2010, capitalised development expenditures are not amortized because the intangible asset has not been completed and available for use or sale.

# Notes to the Consolidated Financial Statements

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

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

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

#### **(o) Inventories**

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

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

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

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

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

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



# Notes to the Consolidated Financial Statements

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

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

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

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

##### **Goodwill**

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

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

#### (q) Cash and cash equivalents

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

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

#### (r) Provisions

##### **General**

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

##### **Product warranty**

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

# Notes to the Consolidated Financial Statements

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

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

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

#### (s) Convertible preference shares

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

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

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

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

#### (t) Investment properties

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

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

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

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

#### (u) Development properties

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

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

# Notes to the Consolidated Financial Statements

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

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

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

#### (v) Related parties

A party is considered to be related to the Group if:

- (a) The party, directly or indirectly through one or more intermediaries,
  - (i) controls, is controlled by, or is under common control with, the Group;
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) The party is an associate;
- (c) The party is a jointly-controlled entity;
- (d) The party is a member of the key management personnel of the Group or its parent;
- (e) The party is a close member of the family of any individual referred to in (a) or (d); or
- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### 2.3 Changes in accounting policy and disclosures

#### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2010:

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective July 1, 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

# Notes to the Consolidated Financial Statements

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

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

### 2.3 Changes in accounting policy and disclosures (cont'd)

The adoption of the standards or interpretations is described below:

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

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

#### **Improvements to IFRSs**

In May 2008, and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

##### *Issued in May 2008*

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

##### *Issued in April 2009*

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

# Notes to the Consolidated Financial Statements

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

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

### **2.3 Changes in accounting policy and disclosures (cont'd)**

- IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 34.
- IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement/IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Issued in financial year 2010

- IFRS 1 First-time adoption of IFRS
- IFRS 2 Share-based Payment
- IAS 32 Financial Instruments: Presentation
- IAS 39 Financial instruments: Recognition and Measurement
- IFRIC 16 Hedges of a net investment in a Foreign Operation
- IFRIC 17 Distribution of Non-cash assets to Owners
- IFRIC 18 Transfers of Assets from Customers

# Notes to the Consolidated Financial Statements

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

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

### 2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

#### **IAS 24 Related Party Disclosures (Amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

#### **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

#### **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### **IFRIC 14 Prepayments of a minimum funding requirement (Amendment)**

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

#### **IFRIC 15 Agreements for the Construction of Real Estate**

IFRIC 15 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised. Management is still in process of evaluating the impact of this interpretation on the financial statements of the Group.

# Notes to the Consolidated Financial Statements

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

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

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

#### **IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments***

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

#### **Improvements to IFRSs (issued in May 2010)**

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

## 3. Significant accounting judgments, estimates and assumptions

### 3.1 Judgments

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

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

# Notes to the Consolidated Financial Statements

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

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

### 3.1 Judgments (cont'd)

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

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

### 3.2 Estimates and assumptions

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

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

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next eight years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 16.

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

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

Assets to be disposed of would be separately presented in the consolidated statement of financial positions and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The carrying amounts of property, plant and equipment as of January 1, 2009, December 31, 2009 and December 31 2010 are Rmb 2,548,736, Rmb 2,975,169 and Rmb 3,276,302 (US\$499,711) respectively.

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



# Notes to the Consolidated Financial Statements

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

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

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

#### ***Impairment of property, plant and equipment (cont'd)***

An impairment loss of Rmb 1,372 (US\$209) (2009: Rmb 7,785; 2008: Rmb 69,930) was charged to the consolidated income statement under cost of sales, selling, general and administrative expenses. The 2010 impairment charges were as follows:

- Property, plants and equipments Rmb 1,372 (US\$209) (2009: Rmb 7,785; 2008: Rmb 43,664)
- Prepaid operating leases Rmb nil (US\$nil) (2009: Rmb nil; 2008: Rmb 26,266)

The economic slowdown in late 2008 resulted in lower hotel utilisation and reduced building tenancy. As a result, the Group concluded that future cash flows from the hotel and office building were not as originally anticipated, leading to the impairment charge for the hotel and office building in the fiscal year 2008. The impairment for 2009 and 2010 was due to assets that were not in use.

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2009 and 2010 are Rmb 241,718 and Rmb 294,934 (US\$44,984) respectively.

The Group has unrecognised tax loss carried forward amounting to Rmb 439,996 and Rmb 413,995 (US\$63,144) as of December 31, 2009 and 2010 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by Rmb 70,685 (US\$10,781) for year ended December 31, 2010.

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

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

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

The Group recognises a provision for product warranty in accordance with the accounting policy stated on Note 2.2(r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2009 and 2010 were Rmb 259,534 and Rmb 352,154 (US\$53,711) respectively.

# Notes to the Consolidated Financial Statements

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

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

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

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

The China's Unified Enterprise Income Tax Law ("CIT law") also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognise a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of December 31, 2009 and 2010 are Rmb 30,946 and Rmb 76,792 (US\$11,713) respectively.

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

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

The Group sells bills receivables to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivables when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivables are substantially transferred to the banks. Accordingly, bills receivable are derecognised, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 23.

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

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2009 and 2010 were Rmb 286,947 and Rmb 171,432 (US\$26,148) respectively.

#### ***Accounts receivable provisions***

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2009 and 2010 were Rmb 76,646 and Rmb 61,161 (US\$9,328) respectively.

# Notes to the Consolidated Financial Statements

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

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

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

#### *Development costs*

Development costs are capitalised in accordance with the accounting policy in Note 2.2(n). Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes reference to the expected future cash generation from the project. At 31 December 2010, the carrying amount of capitalised development costs was Rmb 13,389 (US\$2,042) (2009: Rmb nil).

## 4. Restatement

### (i) Investment in joint ventures

In February 2006, the Company acquired debt and equity securities in HL Global Enterprises ("HLGE") and in doing so, consolidated HLGE as a subsidiary on the first time adoption of IFRS with effect from 1 January 2009, based on the potential voting rights the Company has in HLGE. Please refer to Note 19(a).

As a result of the acquisition of HLGE as a subsidiary, the purchase method of accounting was applied and fair value adjustments relating to Property, Plant and Equipment ("PPE") of a joint venture of HLGE was included into the Group's consolidated PPE.

As the Company adopts the equity method of accounting for its joint ventures, the fair value adjustments arising from the purchase price allocation for the PPE in joint ventures should have been recorded within the investment in joint venture balance sheet item, instead of the PPE. Accordingly, the Group has reclassified the fair value adjustments from the PPE to investments in joint ventures for the related balances as at 1 January 2009 and 31 December 2009.

### (ii) Reclassification of interest bearing loans and borrowings

During the financial year ended 31 December 2009, the Group reclassified the Singapore dollars denominated bank loans with DBS Bank from non-current liabilities to current liabilities. Refer to note 19(b).

In addition to the basic loan terms and specific clauses defining default events, the Singapore dollars denominated DBS bank loans also include an overriding repayment on demand clause which gives the lender the right to demand repayment at any time at their sole discretion irrespective of whether a default event has occurred. The bank loans were not scheduled for repayment within twelve months after 31 December 2009. As such, the bank loans were classified as non-current liabilities as at 31 December 2009 based on the scheduled repayment dates in the loan facility agreements.

# Notes to the Consolidated Financial Statements

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

## 4. Restatement (cont'd)

### (ii) Reclassification of interest bearing loans and borrowings (cont'd)

In October 2010, the International Accounting Standards Board International Financial Reporting Standards Interpretations Committee ("IFRIC") clarified that callable term loans should be classified as current in their entirety in the statement of financial position as the entity does not have the unconditional right as at the reporting date to defer settlement for at least twelve months after the reporting date. Accordingly, the Group reclassified the above bank loans to current liabilities. The reclassification has no effect on the net assets or the results of the Group for each year, and does not result in a breach of specific clauses defining default events.

The Group had reclassified the loan as current liabilities as of 31 December 2008 as it has breached a provision of a long-term loan arrangement as of that date. Accordingly the reclassification of the 1 January 2009 statement of financial position is not needed.

The effects of the previously reported consolidated financial statements are as follows:

	1.1.2009			31.12.2009		
	As previously reported Rmb'000	Adjustment Rmb'000	As restated Rmb'000	As previously reported Rmb'000	Adjustment Rmb'000	As restated Rmb'000
<b>Assets</b>						
<b>Non-current assets</b>						
Property, plant and equipment	2,719,773	(171,037)	2,548,736	3,146,206	(171,037)	2,975,169
Investment in joint ventures	164,979	171,037	336,016	196,988	171,037	368,025
<b>Non-current liabilities</b>						
Interest-bearing loans and borrowings	176,756	—	176,756	625,256	(213,381)	411,875
<b>Current liabilities</b>						
Interest-bearing loans and borrowings	1,148,732	—	1,148,732	453,792	213,381	667,173

# Notes to the Consolidated Financial Statements

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

## 5. 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	
		31.12.2009 %	31.12.2010 %
Guangxi Yuchai Machinery Company Limited	Republic of China	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited	Republic of China	74.2	74.2
Guangxi Yuchai Machinery Monopoly Development Company Limited	Republic of China	54.9	54.9
Xiamen Yuchai Diesel Engines Company Limited	Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited <sup>(1)</sup>	Republic of China	39.7	39.7
Zhejiang Yuchai Sanli Engine Company Limited <sup>(1)</sup>	Republic of China	39.7	39.7
HL Global Enterprises Limited <sup>(2)</sup>	Singapore	45.4	47.4

- (1) The Group considers these companies as subsidiaries as it is able to govern the financial and operating policies of these companies through Yuchai's equity interest and its ability to control the companies' equity interest.
- (2) During the year, the Company converted 33,891,000 of RCPS B shares into HLGE's ordinary shares. As a result, the Company's interest in HLGE increased to 47.4%. Having regard to the potential voting rights attributable to the RCPS in HLGE, the Group considers HLGE a subsidiary as it is able to govern the financial and operating policies of HLGE.

# Notes to the Consolidated Financial Statements

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

## 6. Investment in associates

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

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Initial cost	439,335	22,797	3,477
Less: Reclassification to asset classified as held for sale	(410,994)	—	—
	<u>28,341</u>	<u>22,797</u>	<u>3,477</u>
Share of post acquisition earnings			
At 1 January	(40,099)	18,201	2,776
Less: Reclassification to asset classified as held for sale	61,274	—	—
	<u>21,175</u>	<u>18,201</u>	<u>2,776</u>
Share of results (net of tax)	15,976	(121)	(18)
Less: Reclassification to discontinued operations	(13,022)	—	—
Share of results after tax excluding discontinued operations	<u>2,954</u>	<u>(121)</u>	<u>(18)</u>
Disposal of associate	—	707	108
Dividend received	(6,038)	—	—
Translation adjustment	110	—	—
At 1 January/31 December	<u>18,201</u>	<u>18,787</u>	<u>2,866</u>
Share of reserves	(48,153)	(2,974)	(454)
Less: Reclassification to reserves of asset classified as held for sale	41,255	—	—
	<u>(6,898)</u>	<u>(2,974)</u>	<u>(454)</u>
Investment in associate	<u>39,644</u>	<u>38,610</u>	<u>5,889</u>
Reclassification to assets held for sale (Note 11)	<u>(321,487)</u>	<u>—</u>	<u>—</u>

# Notes to the Consolidated Financial Statements

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

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

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ Business	Group's effective equity interest	
			31.12.2009	31.12.2010
			%	%
<b>Held by subsidiaries:</b>				
Scientex Park (M) Sdn Bhd <sup>(1)</sup>	Property investment and development	Malaysia	12.7	13.3
Sinjori Sdn Bhd <sup>(1)</sup>	Property investment and development	Malaysia	12.7	13.3
Guangxi Yuchai Automobile Spare parts Manufacturing Co., Ltd. <sup>(2)</sup>	Manufacture spare part and sales of auto spare part, diesel engine & spare part, Metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	Republic of China	14.8	—
Yuchai Quan Xing Co., Ltd. <sup>(3)</sup>	Manufacture spare part and sales of auto spare part, diesel engine & spare part, Metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	Republic of China	14.8	14.8
Yuchai Property Management Co., Ltd. <sup>(4)</sup>	Property management	Republic of China	22.3	22.3

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

(2) The Company had significant influence in this entity through YAMC who held direct equity interests of 20% interest in this entity in 2009. The entity was disposed of by YAMC in 2010.

(3) The Company has significant influence in this entity through YAMC who held direct equity interests of 20% interest in this entity.

(4) The Company has significant influence in this entity through YAMC who held direct equity interests of 30% interest in this entity.

# Notes to the Consolidated Financial Statements

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

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

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

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
<b>Assets and liabilities</b>			
Total assets	282,365	174,982	26,688
Total liabilities	107,379	34,739	5,298
Net assets	<u>174,986</u>	<u>140,243</u>	<u>21,390</u>
	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
<b>Results</b>			
Revenue	2,274,869	163,716	16,145
(Loss)/profit after taxation	<u>(91,192)</u>	<u>2,236</u>	<u>(110)</u>

## 7. Investment in joint ventures

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

	<b>1.1.2009</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
	<b>(Restated)</b>	<b>(Restated)</b>		
Unquoted equity shares, at cost				
As previously reported	220,398	287,510	650,454	99,208
Reclassify from property, plant and equipment (Note 4)	<u>171,037</u>	<u>171,037</u>	<u>—</u>	<u>—</u>
As restated	391,435	458,547	650,454	99,208
At 1 January	(54,683)	(46,907)	(83,580)	(12,748)
Share of results after tax	13,692	(16,000)	(53,902)	(8,221)
Dividend received	(10,476)	(19,122)	(1,733)	(264)
Write-back of impairment	—	—	10,936	1,668
Translation adjustment	<u>4,560</u>	<u>(1,551)</u>	<u>(4,864)</u>	<u>(742)</u>
At 1 January/31 December	(46,907)	(83,580)	(133,143)	(20,307)
Share of post acquisition retained earnings	<u>(8,512)</u>	<u>(6,942)</u>	<u>(2,998)</u>	<u>(457)</u>
Carrying amount of the investment	<u>336,016</u>	<u>368,025</u>	<u>514,313</u>	<u>78,444</u>



# Notes to the Consolidated Financial Statements

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

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

The Group has interests in the following joint ventures:

Name of company	Percentage of interest held			Principal activities
	1.1.2009	31.12.2009	31.12.2010	
	%	%	%	
<b>Held by subsidiaries:</b>				
Augustland Hotel Sdn Bhd	45	45	45	Hotel development and operation
Copthorne Hotel Qingdao Co., Ltd	60	60	60	Owns and operates a hotel in Qingdao, People's Republic of China
Shanghai Equatorial Hotel Management Co., Ltd.	49	49	49	Hotel management and hotel consultancy'
Shanghai International Equatorial Hotel Co., Ltd.	50	50	50	Owns and operates a hotel and club in Shanghai, People's Republic of China
Y&C Engine Co., Ltd.	—	45	45	Heavy duty diesel engine
Yuchai Remanufacturing Services Co., Ltd.	—	—	51	Remanufacture and sale of automobile parts, diesel engines and components

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

The summarized financial information on the Group's share is as follows:

	1.1.2009	31.12.2009	31.12.2010	31.12.2010
	Rmb'000	Rmb'000	Rmb'000	US\$'000
<b>Assets and liabilities</b>				
Current assets	64,270	114,502	197,526	30,127
Non-current assets	258,496	237,352	406,166	61,950
Current liabilities	43,428	96,003	145,808	22,239
Non-current liabilities	89,409	27,382	78,803	12,019
Net assets	189,929	228,469	379,081	57,819
<b>Results</b>				
	31.12.2008	31.12.2009	31.12.2010	31.12.2010
	RMB'000	Rmb'000	Rmb'000	US\$'000
Revenue	135,488	107,229	148,349	22,627
Profit/(loss) after taxation	7,509	(12,795)	(9,162)	(1,397)

# Notes to the Consolidated Financial Statements

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

## 8. Revenue

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Sale of goods	10,358,124	13,139,578	16,138,580	2,461,500
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	37,618	26,268	41,948	6,398
Revenue from sale of development properties	4,962	6,744	24,278	3,703
Rental income	4,084	3,313	3,378	515
Total revenue from rendering of services	<u>46,664</u>	<u>36,325</u>	<u>69,604</u>	<u>10,616</u>
<b>Revenue</b>	<b><u>10,404,788</u></b>	<b><u>13,175,903</u></b>	<b><u>16,208,184</u></b>	<b><u>2,472,116</u></b>

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

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

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Cost of goods sold	182,473	180,043	193,504	29,514
Research and development expenses	18,144	22,175	22,253	3,394
Selling, general and administrative expenses	72,011	83,096	70,383	10,734
	<u>272,628</u>	<u>285,314</u>	<u>286,140</u>	<u>43,642</u>

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

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Selling, general and administrative expenses	<u>59,129</u>	<u>79,129</u>	<u>160,283</u>	<u>24,447</u>

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

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Selling, general and administrative expenses	<u>164,364</u>	<u>215,621</u>	<u>248,790</u>	<u>37,946</u>

# Notes to the Consolidated Financial Statements

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

## 9.2 (a) Other operating income

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Interest income	15,228	31,576	61,719	9,414
Foreign exchange gain, net	—	—	19,975	3,047
Dividend income from associates	—	11,162	—	—
Gain on disposal of associates	—	1,906	707	108
Gain on disposal of subsidiaries	—	—	2,833	432
Fair value gain on held for trading investment securities	—	—	17,123	2,612
Gain on assignment of debts	—	5,657	—	—
Negative goodwill	12,368	—	—	—
Write-back of impairment of receivables	—	4,895	—	—
Write-back of trade and other payables	869	23,649	—	—
Write-back of impairment of investment in joint ventures	—	—	10,936	1,668
Government grant income	—	14,823	11,129	1,697
Others, net	—	—	4,653	709
	<u>28,465</u>	<u>93,668</u>	<u>129,075</u>	<u>19,687</u>

## (b) Other operating expenses

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Foreign exchange loss, net	(3,172)	(6,543)	—	—
Loss on disposal of property, plant and equipment	(3,525)	(8,618)	(33,670)	(5,135)
Write-back of trade and other payables	—	—	(5,249)	(801)
Others, net	(2,308)	(952)	(2,528)	(386)
	<u>(9,005)</u>	<u>(16,113)</u>	<u>(41,447)</u>	<u>(6,322)</u>

## 9.3 Research and development costs

Research and development costs recognised as an expense in the income statement amount to Rmb 324,123 (US\$49,436) (2009: Rmb 297,259; 2008: Rmb 184,794).

# Notes to the Consolidated Financial Statements

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

## 9.4 Finance costs

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Interest expense for:				
Bank term loans	66,765	31,382	31,302	4,774
Finance lease	—	1,237	1,649	252
Bills discounting	90,809	60,723	109,260	16,664
Corporate bonds	2,991	(3,332)	—	—
Bank charges	1,344	2,401	2,911	444
Less:				
Borrowing costs capitalized	(11,500)	(14,918)	(14,676)	(2,238)
	<u>150,409</u>	<u>77,493</u>	<u>130,446</u>	<u>19,896</u>

The rate used to determine the amount of borrowing costs eligible for capitalization was 5.00% (2009: 4.56%; 2008: 5.95%), which is the effective interest rate of the borrowings.

## 9.5 Staff costs

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Wages and salaries	644,330	763,483	874,129	133,325
Contribution to defined contribution plans <sup>(i)</sup>	116,379	134,017	189,564	28,913
Retrenchment costs	7,097	38	—	—
Executive bonuses	34,818	45,182	98,239	14,984
Staff welfare	63,243	47,439	56,780	8,660
Others	5,992	5,369	1,412	215
	<u>871,859</u>	<u>995,528</u>	<u>1,220,124</u>	<u>186,097</u>

Note:

- (i) As stipulated by the regulations of the PRC, Yuchai and its subsidiaries participate in defined contribution retirement plans organized by the Guangxi Regional Government and Beijing City Government for its staff. All staff are entitled to an annual pension equal to a fixed proportion of their final basic salary amount at their retirement date. For the years ended December 31, 2010 and 2009, Yuchai and its subsidiaries were required to make contributions to the retirement plan at a rate of 20.0% of the basic salary of their staff. Expenses incurred in connection with the plan were Rmb 187,900 (US\$28,659) (2009: Rmb 124,257; 2008: Rmb 106,062).

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

# Notes to the Consolidated Financial Statements

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

## 10. Income tax

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

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
<b>Current income tax:</b>				
Current income tax charge	87,676	222,047	332,524	50,717
Adjustments in respect of current income tax of previous year	4,942	5,999	3,257	497
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	17,908	(79,632)	(5,400)	(824)
Adjustments in respect of deferred tax of previous year	—	(1,191)	(2,435)	(371)
Income tax expense reported in the income statement	<u>110,526</u>	<u>147,223</u>	<u>327,946</u>	<u>50,019</u>

Income tax expense reported in the consolidated statements of income differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31 2008, 2009 and 2010 for the following reasons:

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Computed tax expense	72,261	145,000	264,780	40,385
Adjustments resulting from:				
Non-deductible expenses	19,326	808	10,432	1,591
Tax-exempt income	—	(43,143)	(2,994)	(457)
Utilisation of deferred tax benefits previously not recognised	858	165	(1,792)	(273)
Deferred tax benefits not recognised	10,491	4,968	3,381	516
Tax credits for R&D expense	(10,169)	(14,563)	(17,556)	(2,678)
Tax rate differential	(2,017)	33,516	25,027	3,816
Underprovision in respect of prior years				
- current	4,942	5,999	3,257	497
- deferred	—	(1,191)	(2,435)	(371)
Withholding tax expense	15,282	15,664	45,846	6,993
Others	(448)	—	—	—
Total	<u>110,526</u>	<u>147,223</u>	<u>327,946</u>	<u>50,019</u>

# Notes to the Consolidated Financial Statements

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

## 10. Income tax (cont'd)

### Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated income statement		
	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US\$'000	31.12.2008 Rmb'000	31.12.2009 Rmb'000	31.12.2010 US\$'000
<b>Deferred income tax liabilities</b>						
Accelerated tax depreciation	(354)	(42)	(6)	—	—	53
Unremitted earnings from overseas source income	(440)	(440)	(67)	—	—	—
Expenditure currently deferred for tax purpose	(100)	—	—	—	—	15
PRC withholding tax on dividend income	(30,946)	(76,792)	(11,713)	(15,282)	(15,664)	(6,993)
	<u>(31,840)</u>	<u>(77,274)</u>	<u>(11,786)</u>	<u>(15,282)</u>	<u>(15,664)</u>	<u>(6,925)</u>
<b>Deferred income tax assets</b>						
Accelerated accounting depreciation	9,508	8,418	1,284	(22,781)	1,025	(166)
Write down of inventory	45,190	36,104	5,507	11,079	14,987	(1,386)
Allowance for doubtful debts	15,040	9,872	1,506	(8,431)	(5,861)	(788)
Accruals	120,931	192,173	29,311	7,383	45,526	10,866
Tax value of loss carried forward	1,191	2,480	378	2,323	(1,132)	199
Deferred income	41,312	35,669	5,440	7,918	33,395	(861)
Others	8,546	10,218	1,558	(117)	8,547	256
	<u>241,718</u>	<u>294,934</u>	<u>44,984</u>	<u>(2,626)</u>	<u>96,487</u>	<u>8,120</u>

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

Deferred tax expense related to share of other comprehensive income of associates amounted to Rmb nil (US\$ nil) (2009: Rmb nil; 2008: Rmb nil).

# Notes to the Consolidated Financial Statements

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

## 10. Income tax (cont'd)

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

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax will be imposed on dividends paid to us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognise a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. As at December 31, 2010, the provision for withholding tax payable was Rmb 76,792 (US\$11,713) (2009: Rmb 30,946).

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

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
Deferred tax assets	241,718	294,934	44,984
Deferred tax liabilities	(31,840)	(77,274)	(11,786)
	<u>209,878</u>	<u>217,660</u>	<u>33,198</u>

## 11. Discontinued operations

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

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

On July 7, 2010, TCL made payment of cash distribution to shareholders pursuant to the Capital Reduction Exercise. Subsequent to the cash distribution, the Company began to sell its shares in TCL in the market. As of December 31, 2010, 580,253,000 shares in TCL have been disposed of and the Company has recognised a gain on disposal of TCL shares of Rmb 12,655 (US\$1,930).

# Notes to the Consolidated Financial Statements

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

## 11. Discontinued operations (cont'd)

Upon the disposal of TCL shares, the Company's shareholding interest in TCL has reduced from 34.4% to 12.2%. Meanwhile, the Company's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2010, the Company does not exercise significant influence over the operating and financial policies of TCL. The Company's investment in TCL is classified as held for trading (Note 22) as they are held for the purpose of selling in the near term. The Company's investment in TCL is measured at fair value with changes in fair value recognised in other income in the income statement of Rmb 17,123 (US\$2,612).

	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Profit from discontinued operations:				
- Profit before tax	(33,731)	14,321	—	—
- Gain on disposal	—	—	12,655	1,930
- Taxation	(254)	(1,299)	—	—
	<u>(33,985)</u>	<u>13,022</u>	<u>12,655</u>	<u>1,930</u>
	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb</b>	<b>Rmb</b>	<b>Rmb</b>	<b>US\$</b>
Earnings per share:				
Basic, from discontinued operation	(0.91)	0.35	0.34	0.05
Diluted, from discontinued operation	(0.91)	0.35	0.34	0.05

## 12. Earnings per share

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

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



# Notes to the Consolidated Financial Statements

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

## 12. Earnings per share (cont'd)

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

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Net profit attributable to ordinary equity holders of the Parent from continuing operations	274,021	615,309	1,104,642	168,483
Profit attributable to ordinary equity holders of the Parent from a discontinued operation	(33,985)	13,022	12,655	1,930
<b>Net profit attributable to ordinary equity holders of the Parent for basic earnings</b>	<u>240,036</u>	<u>628,331</u>	<u>1,117,297</u>	<u>170,413</u>
	<u><b>31.12.2008</b></u>	<u><b>31.12.2009</b></u>	<u><b>31.12.2010</b></u>	<u><b>31.12.2010</b></u>
Weighted average number of ordinary shares for basic earnings per share	<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>

There were no potentially dilutive common shares in any of the years ended December 31, 2010, 2009 and 2008.

To calculate earnings per share amounts for the discontinued operation (see Note 11), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used:

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Net profit attributable to ordinary equity holders of the Parent from discontinued operation for basic and diluted earnings per share calculations	<u>(33,985)</u>	<u>13,022</u>	<u>12,655</u>	<u>1,930</u>

# Notes to the Consolidated Financial Statements

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

## 13. Property, plant and equipment

	Freehold land	Leasehold land, buildings & improvements	Construction- in-progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	Rmb'000	Rmb'000 (Restated)	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000 (Restated)
<b>Cost:</b>							
At January 1, 2009							
As previously reported	591	1,496,943	275,592	2,505,901	110,235	72,172	4,461,434
Reclassify to investment in joint ventures (Note 7)	—	(196,833)	—	—	—	—	(196,833)
<b>At January 1, 2009 (restated)</b>	591	1,300,110	275,592	2,505,901	110,235	72,172	4,264,601
Additions	—	44,847	641,010	72,098	12,185	18,796	788,936
Disposals	—	(9,501)	—	(135,295)	(12,057)	(6,676)	(163,529)
Transfers	—	24,436	(307,337)	282,497	(108)	512	—
Write-off	—	(6,283)	—	(2,217)	(1,275)	—	(9,775)
Translation difference	3	(50)	1,196	47	(20)	(3)	1,173
<b>At December 31, 2009 and January 1, 2010</b>	594	1,353,559	610,461	2,723,031	108,960	84,801	4,881,406
Additions	—	75,669	517,750	24,251	9,092	17,543	644,305
Disposals	—	(43,969)	—	(48,126)	(10,189)	(8,406)	(110,690)
Transfers	—	202,558	(540,115)	315,263	22,053	241	—
Write-off	—	(456)	(16,183)	(5,792)	—	(17)	(22,448)
Translation difference	40	242	(1,437)	771	528	(35)	109
<b>At December 31, 2010</b>	634	1,587,603	570,476	3,009,398	130,444	94,127	5,392,682

# Notes to the Consolidated Financial Statements

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

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

	Freehold land	Leasehold land, buildings & improvements	Construction-in-progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	Rmb'000	Rmb'000 (Restated)	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000 (Restated)
<b>Depreciation and impairment:</b>							
At January 1, 2009							
As previously reported	591	296,087	20,975	1,315,473	75,148	33,387	1,741,661
Reclassify to investment in joint ventures (Note 7)	—	(25,796)	—	—	—	—	(25,796)
<b>At January 1, 2009 (restated)</b>	591	270,291	20,975	1,315,473	75,148	33,387	1,715,865
Charge for the year	—	45,435	—	204,360	12,018	14,867	276,680
Disposals	—	(2,830)	—	(73,445)	(10,112)	(3,779)	(90,166)
Transfers	—	—	—	36	(36)	—	—
Write-off	—	(2,259)	—	(518)	(1,275)	—	(4,052)
Impairment loss	—	816	6,376	5,054	—	—	12,246
Reversal of impairment loss	—	—	—	(4,252)	—	(209)	(4,461)
Translation difference	3	(1)	—	75	48	—	125
<b>At December 31, 2009 and January 1, 2010</b>	594	311,452	27,351	1,446,783	75,791	44,266	1,906,237
Charge for the year	—	49,360	—	206,236	11,420	7,428	274,444
Disposals	—	(2,074)	—	(29,496)	(8,410)	(6,301)	(46,281)
Write-off	—	(129)	(16,183)	(3,672)	—	(17)	(20,001)
Impairment loss	—	—	—	1,372	—	—	1,372
Translation difference	40	(108)	—	450	240	(13)	609
<b>At December 31, 2010</b>	634	358,501	11,168	1,621,673	79,041	45,363	2,116,380
<b>Net book value:</b>							
At January 1, 2009 (restated)	—	1,029,819	254,617	1,190,428	35,087	38,785	2,548,736
At December 31, 2009 (restated)	—	1,042,107	583,110	1,276,248	33,169	40,535	2,975,169
At December 31, 2010	—	1,229,102	559,308	1,387,725	51,403	48,764	3,276,302
US\$	—	187,466	85,307	211,660	7,840	7,438	499,711

The impairment loss includes impairment of buildings in Yulin hotel, and Guilin office building. The recoverable amounts of the buildings have been determined based on fair value less cost to sell. Fair values are determined using a market comparison and income approach.

# Notes to the Consolidated Financial Statements

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

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

### Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2010 was Rmb 14,676 (US\$2,238) (2009: Rmb14,918). The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.00% which is the effective interest rate of the specific and any applicable general borrowings that is used for the purpose of obtaining the qualifying assets.

### Finance leases and assets under construction

The carrying value of plant and equipment held under finance leases at December 31, 2009 and 2010 were Rmb 36,818 and Rmb 33,037 (US\$5,039) respectively. Leased assets are pledged as security for the related finance lease.

## 14. Investment properties

	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Cost:</b>		
As at January 1, 2009	35,620	5,433
Translation during the year	358	55
As at December 31, 2009 and 1 January 2010	35,978	5,488
Translation during the year	2,651	404
As at December 31, 2010	<u>38,629</u>	<u>5,892</u>
<b>Accumulated depreciation:</b>		
As at January 1, 2009	1,474	225
Charge during the year	652	99
As at December 31, 2009 and 1 January 2010	2,126	324
Charge during the year	692	106
As at December 31, 2010	<u>2,818</u>	<u>430</u>
<b>Net book value:</b>		
As at December 31, 2009	<u>33,852</u>	<u>5,164</u>
As at December 31, 2010	<u>35,811</u>	<u>5,462</u>

Details of the investment property (non-current) as at December 31, 2010 are as follows:

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

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

# Notes to the Consolidated Financial Statements

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

## 14. Investment properties (cont'd)

Investment property is stated at cost. The Company estimated the fair value of the investment property by obtaining an independent valuation from a professional appraiser. The fair values of the property being valued as at December 31, 2009 and 2010 were Rmb 38,623 and Rmb 41,274 (US\$6,295) respectively. The fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period ended December 31, 2009 and December 31, 2010 are Rmb 2,162 and Rmb 1,995 (US\$304).

## 15. Prepaid operating leases

Yuchai and its subsidiaries are granted the land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government. The prepaid operating leases charged to expense were Rmb 7,982 and Rmb 11,004 (US\$1,678) for the year ended December 31, 2009 and 2010, respectively.

	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>US\$'000</b>
Current	7,273	11,004	1,678
Non-current	355,931	407,468	62,148
Total	<u>363,204</u>	<u>418,472</u>	<u>63,826</u>
	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>US\$'000</b>
Gross payments for prepaid operating leases	414,979	481,251	73,401
Less: Amounts charged to expense	(51,775)	(62,779)	(9,575)
Total	<u>363,204</u>	<u>418,472</u>	<u>63,826</u>

## 16. Goodwill

	<b>Goodwill</b> <b>Rmb'000</b>	<b>Goodwill</b> <b>US\$'000</b>
<b>Cost:</b>		
At January 1, 2009, December 31, 2009 and December 31, 2010	<u>218,311</u>	<u>33,297</u>
<b>Impairment:</b>		
At January 1, 2009, December 31, 2009 and December 31, 2010	<u>5,675</u>	<u>865</u>
<b>Net book value:</b>		
At December 31, 2009	<u>212,636</u>	<u>32,432</u>
At December 31, 2010	<u>212,636</u>	<u>32,432</u>

# Notes to the Consolidated Financial Statements

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

## 16. Goodwill (cont'd)

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

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

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

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

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Yuchai	212,636	212,636	32,432
	<u>212,636</u>	<u>212,636</u>	<u>32,432</u>

### Yuchai unit

The Group performed its annual impairment test as at December 31, 2010 and 2009. The recoverable amount of the unit is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten year period. The business of Yuchai is stable since the Group had control since 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections is 16.98% (2009: 16.98%). No impairment was identified for this unit.

### Key assumptions used in value in use calculations

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

- Gross margin
- Discount rates
- Growth rate estimates

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

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

Growth rate estimates – Growth rates are based on management's estimate. The long term rates used to extrapolate the budget for Yuchai are 15.77% and 12.64% for 2010 and 2009 respectively.

# Notes to the Consolidated Financial Statements

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

## 16. Goodwill (cont'd)

### Sensitivity to changes in assumptions

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

## 17. Intangible assets

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Development costs	—	13,389	2,042

During the financial year, the Group capitalised Rmb 13,389 (US\$2,042) (2009: nil) of development expenditure for intellectual property right, technical skill and knowledge of building a new technology of heavy-duty diesel engine.

## 18. Other receivables (non-current)

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Amount due from joint ventures <sup>(i)</sup>	61,222	58,914	8,985
Deposits	2,000	2,000	305
Lease receivable	8,961	4,619	705
	<u>72,183</u>	<u>65,533</u>	<u>9,995</u>

- (i) The non-current non-trade amounts due from joint venture partners are unsecured, with interest bearing at 1.681% (2009: 1.719%) per annum and are not expected to repay within 12 months from the financial year end.

# Notes to the Consolidated Financial Statements

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

## 19. Other financial liabilities

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

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Preference shares	2,119	861	131
Finance lease liabilities (Note 33)	34,991	27,751	4,233
	<u>37,110</u>	<u>28,612</u>	<u>4,364</u>
	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Current	10,233	9,743	1,486
Non-current	26,877	18,869	2,878
Total	<u>37,110</u>	<u>28,612</u>	<u>4,364</u>

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

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

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

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

- (a) Non-cumulative dividend which shall accrue for each Series B RCPS on a daily basis at 0.1% per annum of the amount equivalent to \$0.16 per outstanding Series B RCPS. Series B RCPS rank pari passu with the Series A RCPS and in priority to all other classes of equity securities;



# Notes to the Consolidated Financial Statements

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

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

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

#### ***Redeemable convertible preference shares ("RCPS") (cont'd)***

- (b) HLGE shall redeem all or part of the Series B RCPS upon the occurrence of any of the relevant redemption events as defined in the DRA;
- (c) Upon the passing of a special resolution at a meeting of the holders of the Series B RCPS convened during the conversion period commencing from the date of issue (March 17, 2005) of such Series B preference shares and expiring 5 years thereafter to approve the conversion of all outstanding Series B RCPS, the Company shall convert all (but not some only) of the outstanding Series B RCPS at the conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA; and
- (d) On the market day immediately following the fifth anniversary of the date of issue of the Series B RCPS, all Series B RCPS which remain unconverted or unredeemed shall be mandatorily converted into ordinary shares of HLGE at conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA.
- (e) If the conversion of all or any part of the Series B Preference Shares held by any holder of Series B Preference Shares (i) is not permitted by law or regulations or (ii) will trigger any obligation to make a general offer by such holder or its concert parties under The Singapore Code on Take-overs and Mergers, such holder will be permitted to convert only such number of Series B Preference Shares held by it as will not (i) result in the breach of such law or regulations or (ii) trigger any take-over obligation on the Mandatory Conversion Date. Such holder will have the option to convert the remaining number of Series B Preference Shares at the Series B Preference Share Conversion Ratio into Ordinary Shares over a period of twenty-two months commencing after the Mandatory Conversion Date, without the requirement of the passing of a Series B Preference Share Special Resolution, by giving a notice in writing to HLGE.

As announced by the HLGE on 12 February 2010, an aggregate of 18,935,883 Series B RCPS shall be mandatorily converted into an aggregate of 18,935,883 ordinary shares on 18 March 2010, being the market day immediately following the fifth anniversary of the date of issue of the Series B RCPS (the "Mandatory Conversion Date").

The Articles of Association of HLGE provides that if the conversion of all or any part of the Series B RCPS held by any holder of Series B RCPS (a) is not permitted by law or regulations, or (b) will trigger any obligation to make a general offer by such holder or its concert parties under The Singapore Code on Take-overs and Mergers, such holder will be permitted to convert only such number of Series B RCPS held by it as will not (i) result in the breach of such law or regulations, or (ii) trigger any takeover obligation on the Mandatory Conversion Date. Such holder will have the option to convert the remaining number of Series B RCPS into ordinary shares over a period of twenty-two months commencing after the Mandatory Conversion Date (the "Extension Period"), without the requirement of the passing of a Series B RCPS Special Resolution, by giving a notice in writing to HLGE.

# Notes to the Consolidated Financial Statements

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

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

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

On 11 February 2010, Grace Star, the immediate holding company and a substantial holder of HLGE, had informed HLGE that it would convert only 17,300,000 out of the 93,229,170 of Series B RCPS it held as at that date into ordinary shares of the Company so as not to trigger a take-over obligation on the Mandatory Conversion Date. Following the Mandatory Conversion Date, Grace Star became the sole holder of the remaining 75,929,170 Series B RCPS in issue.

As Grace Star and HLGE are both subsidiaries of the Company, the Series B RCPS is eliminated at consolidation level.

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

	<b>Effective interest rate</b> %	<b>Maturity</b>	<b>31.12.2009 As previously stated Rmb'000</b>	<b>31.12.2009 As restated Rmb'000</b>
<b>Current:</b>				
Renminbi denominated loans	3.81	2010	434,393	434,393
Singapore dollars denominated loans	2.22	2010	19,399	232,780
			<u>453,792</u>	<u>667,173</u>
<b>Non-Current:</b>				
Renminbi denominated loans	4.86	2012	150,000	150,000
Singapore dollars denominated loans	1.97	2010	293,397	80,016
US\$ denominated loans	1.35	2010	181,859	181,859
			<u>625,256</u>	<u>411,875</u>

	<b>Effective interest rate</b> %	<b>Maturity</b>	<b>31.12.2010 Rmb'000</b>	<b>31.12.2010 US\$'000</b>
<b>Current:</b>				
Renminbi denominated loans	4.73	2011	372,620	56,833
Singapore dollars denominated loans	1.29	2011	50,923	7,767
			<u>423,543</u>	<u>64,600</u>
<b>Non-Current:</b>				
Renminbi denominated loans	4.86	2012 - 2013	100,000	15,253
Singapore dollars denominated loans	1.20	2011	50,925	7,767
US\$ denominated loans	1.08	2011	50,925	7,767
			<u>201,850</u>	<u>30,787</u>

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

# Notes to the Consolidated Financial Statements

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

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

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

#### **S\$50.0 million bridging loan with DBS Bank Ltd. ("DBS"):**

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

#### **S\$50.0 million credit facility with DBS Bank Ltd. ("DBS"):**

On August 21, 2009, the Company entered into a new short-term loan agreement for up to S\$50 million for 12 months duration with DBS Bank Ltd. ("DBS") of Singapore, to re-finance our existing bridging credit facility with DBS which expired on September 4, 2009. The new facility will be used to finance the Company's long-term general working capital requirements. The terms of the facility include certain financial covenants as well as negative pledge and default provisions. There is an undertaking by the Company to repay S\$2 million every quarter. On September 1, 2010, the credit facility expired and was refinanced for S\$10.0 million with the same bank. This loan has a callable clause that resulted in the restatement of the loan from non-current liabilities to current liabilities. Refer to Note 4 for discussion.

#### **S\$10.0 million credit facility with DBS Bank Ltd. ("DBS"):**

On September 1, 2010, the Company entered into a new short-term loan agreement for up to S\$10 million for 12 months duration with DBS Bank Ltd. ("DBS") of Singapore to refinance the S\$50 million facility that was due to mature on September 1, 2010. The facility will be utilised by the Company to finance its long-term working capital requirements. The terms of facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary of HLA, and that HLGE remains listed on the Singapore Exchange Limited. 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) not less than US\$350 million at any time, and the ratio of the Company's consolidated debt to consolidated tangible net worth (as defined in the agreement) not exceeding 1 time. All moneys owing by the Company shall be repaid in full on the date falling 12 months after the drawdown date ("Final Repayment Date").

# Notes to the Consolidated Financial Statements

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

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

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

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

On March 20, 2008, the Company entered into a new facility agreement with BOTM to re-finance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S\$21.5 million with one-year duration. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that Hong Leong Asia Ltd. ("HLA") retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. On March 19, 2009, this credit facility expired and the new facility with same bank was used to refinance this facility which was fully repaid. The Company has also undertaken to make available to the bank, within 180 days after the end of its financial year, copies of its audited consolidated accounts as at the end of and for that financial year. On March 17, 2010, the credit facility expired and was refinanced for S\$16.5 million with the same bank.

#### **S\$16.5 million credit facility with Bank of Tokyo-Mitsubishi, UFJ Ltd, Singapore Branch ("BOTM"):**

On March 17, 2010, the Company entered into a new facility agreement with BOTM to re-finance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S\$16.5 million with one year duration. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that Hong Leong Asia Ltd. ("HLA") retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

# Notes to the Consolidated Financial Statements

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

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

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

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

On March 30, 2007, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US\$40.0 million to refinance the S\$60.0 million facility with Oversea – Chinese Banking Corporation Limited (“OCBC”) that was due to mature on July 26, 2007. The facility is available for three years from the date of the facility agreement and will be utilised by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company’s tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not being less than US\$120 million and the ratio of our total net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank, within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year. The credit facility expired on March 30, 2010 and was refinanced for US\$30.0 million with the same bank.

#### **US\$30.0 million credit facility with Sumitomo:**

On March 30, 2010, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US\$30.0 million to refinance the US\$40.0 million facility that was due to mature on March 30, 2010. The facility is available for one year from the date of the facility agreement and will be utilised by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company’s consolidated tangible net worth (as defined in the agreement) as at 30 June and 31 December of each year not less than US\$200 million and the ratio of our total consolidated net debt (as defined in the agreement) to tangible net worth as at 30 June and 31 December of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

# Notes to the Consolidated Financial Statements

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

## 20. Deferred grants

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Balance at beginning of year	31,514	179,233	27,337
Received during the year	150,917	112,592	17,173
Released to the income statement	(3,198)	(11,129)	(1,697)
Balance at end of year	<u>179,233</u>	<u>280,696</u>	<u>42,813</u>
Current	3,198	10,960	1,672
Non-current	176,035	269,736	41,141
Total	<u>179,233</u>	<u>280,696</u>	<u>42,813</u>

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

## 21. Inventories

Inventories are comprised of:

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Raw materials	1,056,581	1,333,406	203,375
Work in progress	21,481	38,389	5,855
Finished goods	<u>1,051,964</u>	<u>1,261,065</u>	<u>192,341</u>
<b>Total inventories at the lower of cost and net realisable value</b>	<u>2,130,026</u>	<u>2,632,860</u>	<u>401,571</u>

Inventories recognised as an expense in cost of sales are Rmb 7,490,254, Rmb 9,567,280 and Rmb 11,230,551 (US\$1,712,914) in the year ended December 31, 2008, 2009 and 2010 respectively.

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Balance at beginning of year	136,256	286,947	43,766
Charge to consolidated statements of income	154,700	(111,763)	(17,046)
Written off	(4,009)	(3,752)	(572)
Balance at end of year	<u>286,947</u>	<u>171,432</u>	<u>26,148</u>

The amount of write-down/(reversal) of inventories recognised as an expense and included in "cost of sales" amounted to Rmb 52,747, Rmb 154,700 and Rmb (111,763) (US\$(17,046)) in year ended December 31, 2008, 2009 and 2010 respectively.

# Notes to the Consolidated Financial Statements

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

## 22. Other current assets

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Properties held for sale	91,202	62,022	9,460
Held for trading investment	—	56,628	8,637
	<u>91,202</u>	<u>118,650</u>	<u>18,097</u>

## 23. Trade and bills receivables

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Trade receivables (net)	389,659	536,011	81,754
Bills receivables	2,117,042	3,698,464	564,100
	<u>2,506,701</u>	<u>4,234,475</u>	<u>645,854</u>

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

As of December 31, 2009 and 2010, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled Rmb 3,179,737 and Rmb 3,470,662 (US\$529,355) respectively.

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

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Balance at beginning of year	96,147	76,646	11,690
Credit to consolidated statements of income	(15,552)	(15,491)	(2,363)
Written off	(3,947)	—	—
Translation differences	(2)	6	1
Balance at end of year	<u>76,646</u>	<u>61,161</u>	<u>9,328</u>

# Notes to the Consolidated Financial Statements

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

## 23. Trade and bills receivables (cont'd)

At December 31, 2009 and 2010, gross trade accounts receivable due from a major customer, Dongfeng Automobile Company and its affiliates ("the Dongfeng companies") were Rmb 271,209 and Rmb 319,400 (US\$48,716), respectively. See Note 35 for further discussion of customer concentration risk.

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>0-90 days</b>	<b>91-180 days</b>	<b>&gt;181-365 days</b>	<b>&gt;365 days</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>
As at 31.12.2010	4,234,475	4,032,899	140,811	33,502	26,948	315
As at 31.12.2009	2,506,701	2,438,348	66,888	19	168	1,278

## 24. Other receivables (current)

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
GST/VAT Recoverable	83,825	88,799	13,544
Staff advances	7,394	3,649	556
Amounts due under guarantee contracts, net (see Note 33)	12,557	12,129	1,850
Land deposit	5,000	—	—
Associates	44,662	18,604	2,838
Other related parties	20,310	50,726	7,737
Interest receivables	5,176	5,920	903
Custom tax refund	11,018	4,380	668
Others	23,921	53,093	8,098
Impairment losses – other receivables <sup>(i)</sup>	(32,313)	(26,174)	(3,992)
	<u>181,550</u>	<u>211,126</u>	<u>32,202</u>

Note:

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

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Balance at beginning of year	79,626	32,313	4,928
Credit to consolidated statements of income	(28,506)	(6,234)	(951)
Written off	(19,314)	—	—
Translation differences	507	95	15
Balance at end of year	<u>32,313</u>	<u>26,174</u>	<u>3,992</u>



# Notes to the Consolidated Financial Statements

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

## 25. Cash and cash equivalents

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

	<u>31.12.2008</u> <u>Rmb'000</u>	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
Cash at banks and on hand	823,695	3,657,981	4,060,990	619,393

Cash at banks earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate as at 31 December 2010 for the Group was 2.65% (2009: 1.57%). Cash and cash equivalents denominated in various currencies are held in bank accounts in the Singapore and China.

At December 31, 2009 and 2010, the Group had available Rmb 3,875,020 and Rmb 4,072,593 (US\$621,163) respectively of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2009 and 2010 were Rmb 104 and Rmb 102 (US\$16) respectively.

## 26. Issued capital and reserves

	<u>31.12.2008</u> <u>thousands</u>	<u>31.12.2009</u> <u>thousands</u>	<u>31.12.2010</u> <u>thousands</u>	<u>31.12.2010</u> <u>thousands</u>
<b>Authorized shares</b>				
Ordinary share of US\$0.10 each	100,000	100,000	100,000	100,000
	<u>31.12.2008</u> <u>Rmb'000</u>	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
<b>Ordinary shares issued and fully paid</b>				
37,267,673 ordinary shares issued and fully paid at US\$0.10 per share	1,724,196	1,724,196	1,724,196	262,979
	<u>31.12.2008</u> <u>Rmb'000</u>	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
Non-redeemable convertible cumulative preference shares ("NCCPS")	36	36	21	3

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

## 27. Dividends paid and proposed

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Declared and paid during the year:			
Dividends on ordinary shares:			
Interim dividend for 2009 <b>US\$0.10</b> per share (2008: <b>US\$0.10</b> per share)	25,457	—	—
Interim dividend for 2010: <b>US\$0.25</b> per share (2009: <b>US\$0.10</b> per share)	—	63,078	9,621
	<u>25,457</u>	<u>63,078</u>	<u>9,621</u>

## 28. Statutory reserves

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
<b>Statutory general reserve</b> (see Note (ii))				
Balance at January 1	174,033	176,126	180,339	27,505
Transfer from retained earnings	2,093	4,213	378	58
Balance at end of year	<u>176,126</u>	<u>180,339</u>	<u>180,717</u>	<u>27,563</u>
<b>Statutory public welfare fund</b> (see Note (iii))				
Balance at January 1	70,600	85,641	85,641	13,062
Transfer from retained earnings	15,041	—	—	—
Balance at end of year	<u>85,641</u>	<u>85,641</u>	<u>85,641</u>	<u>13,062</u>
<b>General surplus reserve</b> (see Note (iv))				
Balance at January 1 and December 31	25,706	25,706	25,706	3,921
Balance at end of year	<u>287,473</u>	<u>291,686</u>	<u>292,064</u>	<u>44,546</u>

Notes:

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

# Notes to the Consolidated Financial Statements

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

## 28. Statutory reserves (cont'd)

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

## 29. Trade and other payables (current)

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>US\$'000</b>
Trade payables	4,749,651	5,699,334	869,278
Other payables	1,284,645	1,949,918	297,407
Deferred grants	3,198	10,960	1,672
Interest payable	2,498	2,336	356
Immediate holding company	362	40	6
Associates	—	9,458	1,443
Other related parties	149,892	230,271	35,121
Balance at end of year	<u>6,190,246</u>	<u>7,902,317</u>	<u>1,205,283</u>

Terms and conditions of the above financial liabilities:

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

# Notes to the Consolidated Financial Statements

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

## 30. Provision for product warranty

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Balance at beginning of year	188,599	259,534	39,585
Provision made	368,284	498,767	76,073
Less: Provision utilised	<u>(297,349)</u>	<u>(406,147)</u>	<u>(61,947)</u>
Balance at end of year	<u>259,534</u>	<u>352,154</u>	<u>53,711</u>

## 31. Gain on acquisition of Guangxi Yulin Hotel Company Ltd. in settlement of past loan

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

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

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

As of January 1, 2008 and December 31, 2008, the transfer of the 100% equity interest in Yulin Hotel Company was subject to approval from the provincial government regulatory agency in charge of state-owned assets administration in China. Yuchai's Board of Directors and shareholders had approved an extension of time for obtaining of approval from November 30, 2008 to June 30, 2009 failing which, Yuchai would have had the right to sell to the State Holding Company, who would have been obligated to buy, 100% of the equity in Yulin Hotel Company at the original purchase price of Rmb 245.6 million. This condition is contained in a guarantee letter provided by the original shareholders of Yulin Hotel Company. However, management of the Company was uncertain whether State Holding Company had the financial ability to purchase Yulin Hotel Company for the full contractual amount of Rmb 245.6 million. Consequently, no recovery of the previously recorded impairment loss on the loans due from YMCL was recognised in the Company's consolidated financial statements as of December 31, 2008 and the provision against the loan was reclassified as a deferred gain in the statement of financial position. Such recovery was recognised in the Company's consolidated financial statements on January 13, 2009, when Yuchai received approval from the provincial government regulatory agency in charge of state-owned assets administration in China for its acquisition of the 100% equity interest in Yulin Hotel Company. Upon receipt of approval from the provincial government, the gain was recognised in the Statement of Income in 2010.

## **32. Related party disclosures**

### **The ultimate parent**

Our controlling shareholder, HLA, indirectly owns 10,523,313, or 28.2%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. HLA controls us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 21.0% of the outstanding shares of our Common Stock and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 7.2% of the outstanding shares of our Common Stock. HLA is a member of the Hong Leong Investment Holdings Pte Ltd., or Hong Leong Investment, group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, or Diesel Machinery, which, until its dissolution, was a holding company controlled by Hong Leong China and was the prior owner of the special share. Through HL Technology's stock ownership and the rights accorded to the Special Share under our bye-laws and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

# Notes to the Consolidated Financial Statements

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

## 32. Related party disclosures

### The ultimate parent (cont'd)

There were transactions other than dividends paid, between the Group and HLA of Rmb 299 (US\$46), Rmb 470 and Rmb 6,414 during the financial years ended December 31, 2010 and 2009 and 2008 respectively.

### Entity with significant influence over the Group

The Yulin City Government through Coomber Investment Ltd owns 18% of the ordinary shares in the Company (2009: 18%).

The following provides the total amount of transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2010 and 2009, refer to Notes 24 and 29):

	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Sales of diesel engines to State Holding Company, its subsidiaries and affiliates (See Note (i))	196,997	338,094	497,637	75,901
Sales of raw materials to YMCL (See Note (i))	—	232,560	350,346	53,436
Sales to affiliates (See Note (i))	18,067	61,521	4,442	678
Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company (See Note (i))	(1,013,106)	(1,509,950)	(1,707,123)	(260,375)
Purchases of raw materials and supplies from affiliates (See Note (i))	(17,781)	(94,236)	(38,163)	(5,821)
Delivery expense charged by a subsidiary of YMCL (See Note (ii))	(161,036)	(210,129)	(244,360)	(37,270)
Storage expense charged by a subsidiary of SHC (See Note (iii))	—	(58,667)	(41,507)	(6,331)
	<u>31.12.2008</u> Rmb'000	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
General and administrative expenses				
- charged by State Holding Company (See Note (iv))	(34,934)	(35,857)	(21,906)	(3,341)
- charged by HLA (see Note (v))	(6,758)	(470)	(299)	(46)
- charged by an affiliate of HLA (See Note (vi))	(6,760)	(8,124)	(6,260)	(955)

Note:

- (i) Sale and purchase of raw materials, supplies, scraps and diesel engines to/from State Holding Company, its subsidiaries and affiliates. Certain subsidiaries and affiliates of State Holding Company have acted as suppliers of raw materials and supplies to the Company and certain subsidiaries of State Holding Company have acted as sales agents of the Group. The State Holding Company also purchased scraps from the Group. State Holding Company's subsidiaries and affiliates include YMCL. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms.

# Notes to the Consolidated Financial Statements

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

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

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

- (ii) Delivery expense charged by YMCL and its subsidiaries. The fee is for the delivery of spare parts charged by YMCL, which were recorded in "Cost of goods sold" and "Selling, general and administrative expenses" respectively. Management considers that these transactions were entered into in the normal course of business and these transactions continued on normal commercial terms.
- (iii) Storage expenses charged by subsidiary of SHC for the storage of engines components and parts for Yuchai and delivery to the production facilities are required.
- (iv) General and administrative expenses charged by State Holding Company. State Holding Company charges Yuchai for certain general and administrative expenses in respect of rental of certain office premises, property management services rendered by State Holding Company. The expenses are charged to Yuchai and its subsidiaries by State Holding Company on an actual incurred basis. Management believes that the expenses charged to Yuchai by State Holding Company would not have been materially different on a stand-alone basis because Yuchai could provide these services for itself at approximately the same amount.
- (v) Management fees, general and administrative expenses charged by HLA.
- (vi) General and administrative expenses charged by affiliates of HLA. The fees mainly relate to office rental, secretarial fees, insurance fees, professional and consultancy fees, and miscellaneous office expenses.

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

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

### Compensation of key management personnel of the Group

	<u>31.12.2008</u>	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2010</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Short term employee benefits	<u>24,773</u>	<u>25,992</u>	<u>53,883</u>	<u>8,218</u>

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



# Notes to the Consolidated Financial Statements

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

## 33. Commitments and contingencies

### **Operating lease commitments – Group as lessee**

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

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

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Within one year	9,007	16,281	2,483
After one year but not more than five years	7,968	20,469	3,122
	<u>16,975</u>	<u>36,750</u>	<u>5,605</u>

The minimum lease payments recognised as an expense in the period ended December 31, 2008, 2009 and 2010 amounted to Rmb 24,306, Rmb 46,092 and Rmb 49,780 (US\$7,593).

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

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

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

	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2010</u> US\$'000
Within one year	5,998	7,326	1,117
After one year but not more than five years	16,522	11,091	1,692
More than five years	515	17	3
	<u>23,035</u>	<u>18,434</u>	<u>2,812</u>

# Notes to the Consolidated Financial Statements

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

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

### **Finance lease commitments**

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

	<b>31.12.2009</b>		<b>31.12.2010</b>	
	<b>Minimum payments</b>	<b>Present value of payments</b>	<b>Minimum payments</b>	<b>Present value of payments</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>	<b>Rmb'000</b>
Within one year	11,397	9,748	11,392	9,743
After one year but not more than five years	30,604	25,243	21,720	18,008
Total minimum lease payments	42,001	34,991	33,112	27,751
Less amounts representing finance charges	(7,010)	—	(5,361)	—
Present value of minimum lease payments	<u>34,991</u>	<u>34,991</u>	<u>27,751</u>	<u>27,751</u>

The finance lease was entered into by YAMC, a subsidiary of Yuchai.

### **Letter of credits**

As of December 31, 2009 and 2010, Yuchai had issued irrevocable letter of credits of Rmb 60.9 million and Rmb 145.6 million (US\$22.2 million), respectively.

### **Sale and leaseback**

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

### **Product liability**

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

# Notes to the Consolidated Financial Statements

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

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

### ***Environmental liability***

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

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

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

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

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

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

Based on the advice from the Company's Legal Counsel, the Company has recorded a loss contingency equal to the amount of the claim. The amounts due to the BOC and from the State Holding Company have been recorded in "Accrued expenses and other liabilities" and "Amounts due from related parties", respectively.

In 2009 and 2010, there was no new development in this case.

# Notes to the Consolidated Financial Statements

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

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

### Guarantees

YEGCL provides guarantees of loans granted by commercial banks in the PRC to unrelated third-party individuals who have obtained the loans to purchase automobiles equipped with diesel engines produced by Yuchai. The guarantees cover the entire principal amount of the loan, which generally has a term of one to two years with equal monthly or quarterly installment payments by the borrower. The guarantees are secured by cash deposits from the individual to YEGCL and by the automobile. In the event of defaults on payment, YEGCL would be required under its guarantee to make payments to the banks on behalf of the borrowers.

In return for issuing the guarantee, YEGCL receives a premium fee ranging from 1% to 3% of the loan amount for the years ending December 31, 2009 and 2010, respectively, which is considered to be the fair value of YEGCL's guarantee at its inception and is recorded as a liability in accordance with the provisions of IAS 39. The Group received Rmb nil of premium fees in 2009 and 2010 respectively, which are included in "Accrued expenses and other liabilities" and recognised as revenue on a straight line basis over the terms of the respective guarantee. Guarantee fees recognised as revenue in 2009 and 2010 amounted to Rmb 54 and Rmb nil (US\$ nil), respectively. As of December 31, 2009 and 2010, deferred guarantee fee revenue amounted to Rmb nil and Rmb nil (US\$ nil), respectively.

Subsequent to initial measurement and recognition of the liability for YEGCL's obligations under these loan guarantees, management evaluates YEGCL's guarantee portfolio and accounts for potential loss contingencies associated with the guarantees based on the estimated losses resulting from known and expected defaults. Each guarantee is secured by a cash deposit from the borrower and a security interest in the automobile purchased by the borrower. As of December 31, 2009 and 2010, YEGCL had gross receivables of Rmb 12,557 and Rmb 12,129 (US\$1,850), respectively, relating to payments made by YEGCL to the banks in conjunction with loans that had been defaulted and to be recovered from the individual borrowers. YEGCL recorded a bad debt allowance in the amount of Rmb 12,273 and Rmb 12,061 (US\$1,840) for other receivables, and Rmb 236 and Rmb 235 (US\$36) for potential losses associated with the guarantee at December 31, 2009 and 2010 respectively. The net receivables amount of Rmb 284 and Rmb 68 (US\$10) is included in "Other receivables, net" in the accompanying consolidated statement of financial positions (See Note 24).

As of December 31, 2009 and 2010, the maximum potential amount of future undiscounted payments YEGCL could be required to make under the guarantees was Rmb 12,050 and Rmb 11,712 (US\$1,786), respectively. YEGCL held cash deposits of Rmb 1,237 and Rmb 937 (US\$143) as of December 31, 2009 and 2010 and security interests in automobiles with an aggregate initial purchase value of Rmb 181,164 and Rmb 85,275 (US\$13,006) as of December 31, 2009 and 2010, respectively. If, in the event of default the cash deposits and the amount of recoveries, if any, from repossession of the automobiles may not entirely mitigate YEGCL's losses then, YEGCL accumulates the total expected risk against the total expected recoverable amount and provides for any expected shortfall. Accordingly, management recorded an accrual for potential losses associated with the guarantees in the amount of Rmb 236 and Rmb 235 (US\$36) as of December 31, 2009 and 2010, respectively, included in "Accrued expenses and other liabilities".

# Notes to the Consolidated Financial Statements

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

## **34. Segment information**

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

- Yuchai primarily conducts manufacturing and sale of diesel engines which are mainly distributed in the PRC market.
- The HLGE group is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia.

The TCL group primarily conducts distribution of consumer electronic products with operations mainly in the PRC (including Hong Kong). TCL also has other business activities relating to contract manufacturing, property development and investment in the PRC. This segment was classified as a discontinued operation during the financial year of 2009. In 2010, with the disposal of 580,253,000 shares in TCL by the Company, the Company no longer has significant influence over the operating and financial policies of TCL, and TCL is no longer regarded as a reporting segment of the Group.

HLGE and TCL are each listed on the Main Board of the Singapore Exchange Securities Trading Limited.

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

# Notes to the Consolidated Financial Statements

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

## 34. Segment information (cont'd)

Year ended December 31, 2010	Yuchai Rmb'000	HLGE Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
<b>Revenue</b>				
External customers	16,158,415	49,769	—	16,208,184
Inter-segment	—	—	—	—
<b>Total revenue</b>	16,158,415	49,769	—	16,208,184
<b>Results</b>				
Interest income	60,285	1,169	265 <sup>(1)</sup>	61,719
Interest expense	(122,178)	(15,791)	10,434 <sup>(1)</sup>	(127,535)
Impairment of property, plant and equipment	(1,372)	—	—	(1,372)
Depreciation and amortisation	(279,295)	(4,749)	(2,096) <sup>(2)</sup>	(286,140)
Share of profits of associates	(661)	540	—	(121)
Share of losses of joint ventures	(13,498)	6	(40,410) <sup>(9)</sup>	(53,902)
Income tax (expense)/ credit	(286,554)	9,180	(50,572) <sup>(3)</sup>	(327,946)
<b>Segment profit</b>	1,851,597	(23,787)	(62,607) <sup>(4)</sup>	1,765,203
<b>Total assets</b>	15,194,764	518,462	533,037 <sup>(5)</sup>	16,246,263
<b>Total liabilities</b>	9,201,795	595,542	(337,001) <sup>(6)</sup>	9,460,336
<b>Other disclosures</b>				
Investment in associates	1,661	36,949	—	38,610
Investment in joint ventures	245,827	126,924	141,562 <sup>(8)</sup>	514,313
Capital expenditure	625,773	3,833	20 <sup>(7)</sup>	629,626

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

# Notes to the Consolidated Financial Statements

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

## 34. Segment information (cont'd)

Year ended December 31, 2009	Yuchai Rmb'000	HLGE Rmb'000	TCL (Discontinued) Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
<b>Revenue</b>					
External customers	13,161,087	14,816	—	—	13,175,903
Inter-segment	—	—	—	—	—
<b>Total revenue</b>	13,161,087	14,816	—	—	13,175,903
<b>Results</b>					
Interest income	29,674	1,788	—	114 <sup>(1)</sup>	31,576
Interest expense	(72,069)	(21,160)	—	15,736 <sup>(1)</sup>	(77,493)
Impairment of property, plant and equipment	(7,785)	—	—	—	(7,785)
Depreciation and amortisation	(275,240)	(2,659)	—	(7,415) <sup>(2)</sup>	(285,314)
Share of profits of associates	2,714	240	—	—	2,954
Share of losses of joint ventures	(83)	(15,917)	—	—	(16,000)
Income tax (expense)/ credit	(130,430)	702	—	(17,495) <sup>(3)</sup>	(147,223)
<b>Segment profit</b>	1,027,837	(24,323)	—	(36,846) <sup>(4)</sup>	966,668
<b>Total assets</b>	11,905,224	521,469	321,487	557,531 <sup>(5)</sup>	13,305,911
<b>Total liabilities</b>	7,333,157	596,377	—	(33,413) <sup>(6)</sup>	7,896,121
<b>Other disclosures</b>					
Investment in associates	5,615	34,029	—	—	39,644
Investment in joint ventures	67,418	129,570	—	171,037 <sup>(8)</sup>	368,025
Capital expenditure	734,555	46,778	—	—	781,333

# Notes to the Consolidated Financial Statements

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

## 34. Segment information (cont'd)

Year ended December 31, 2008	Yuchai Rmb'000	HLGE Rmb'000	TCL (Discontinued) Rmb'000	Adjustments and eliminations Rmb'000	Consolidated financial statements Rmb'000
<b>Revenue</b>					
External customers	10,384,022	20,766	—	—	10,404,788
Inter-segment	—	—	—	—	—
<b>Total revenue</b>	10,384,022	20,766	—	—	10,404,788
<b>Results</b>					
Interest income	8,623	5,153	—	1,452 <sup>(1)</sup>	15,228
Interest expense	(134,245)	(36,497)	—	20,333 <sup>(1)</sup>	(150,409)
Goodwill impairment	(5,675)	—	—	—	(5,675)
Impairment of property, plant and equipment and prepaid operating assets	(69,930)	—	—	—	(69,930)
Depreciation and amortisation	(262,633)	(2,381)	—	(7,614) <sup>(2)</sup>	(272,628)
Share of profits of associates	1,761	956	—	—	2,717
Share of profits of joint ventures	—	13,692	—	—	13,692
Income tax (expense)/credit	(95,249)	5	—	(15,282) <sup>(3)</sup>	(110,526)
<b>Segment profit</b>	507,777	(4,388)	—	(21,647) <sup>(4)</sup>	481,742
<b>Total assets</b>	8,539,153	595,329	—	833,162 <sup>(5)</sup>	9,967,644
<b>Total liabilities</b>	4,770,199	639,874	—	(57,388) <sup>(6)</sup>	5,352,685
<b>Other disclosures</b>					
Investments in associates	7,261	33,896	287,443	—	328,600
Investments in joint ventures	—	164,979	—	171,037 <sup>(8)</sup>	336,106
Capital expenditure	728,572	2,099	—	—	730,671

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

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

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

(4) Profit for each operating segment does not include income tax expense and (loss)/profit after tax for the year from discontinued operations.

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



# Notes to the Consolidated Financial Statements

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

## 34. Segment information (cont'd)

- (6) Segment liabilities consist of the liabilities of the holding entity.
- (7) Included here are capital expenditures incurred by the holding entity.
- (8) Included here are HLGE's share of its joint ventures' property, plant and equipments valued at fair value in excess of costs.
- (9) Included here are HLGE's share of additional depreciation on its joint ventures' property, plant and equipments valued at fair value in excess of costs.

## Geographic information

Revenues from external customers:

	<b>31.12.2009</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>US\$'000</b>
China	13,162,087	16,176,305	2,467,254
Other countries	13,816	31,879	4,862
<b>Total</b>	<u>13,175,903</u>	<u>16,208,184</u>	<u>2,472,116</u>

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

Revenue from one customer group amounted to Rmb 3,313,432 (US\$505,374) (2009: Rmb 2,496,199), arising from sales by Yuchai segment.

## Non-current assets

	<b>1.1.2009</b> <b>Rmb'000</b> <b>(Restated)</b>	<b>31.12.2009</b> <b>Rmb'000</b> <b>(Restated)</b>	<b>31.12.2010</b> <b>Rmb'000</b>	<b>31.12.2010</b> <b>US\$'000</b>
China	3,237,063	3,891,833	4,419,873	674,131
Other countries	53,627	53,780	40,046	6,108
<b>Total</b>	<u>3,290,690</u>	<u>3,945,613</u>	<u>4,459,919</u>	<u>680,239</u>

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

# Notes to the Consolidated Financial Statements

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

## 35. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has loan, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to market risk, credit risk and liquidity risk.

### **Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

### **Interest rate risk**

The primary source of the Group's interest rate risk relates to interest bearing bank deposits and its borrowings from banks and financial institutions. The interest bearing borrowings of the Group are disclosed in Note 19 to the financial statements. As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

### **Interest rate sensitivity**

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

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2010 of the Group would increase/decrease by Rmb 17.2 million (US\$2.6 million) (2009: profit increase/decrease by Rmb 12.9 million).

### **Foreign currency risk**

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily the Singapore dollar, Ringgit Malaysia, Chinese Renminbi and United States dollar.

# Notes to the Consolidated Financial Statements

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

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

### Foreign currency risk (cont'd)

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimising the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

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

Group	December 31, 2009				
	Singapore Dollar	Euro Dollars	United States Dollar	Chinese Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other investments	326,058	—	—	—	—
Trade and other receivables	374	9,171	135,981	32,464	—
Cash and cash equivalents	78,372	253	2,636	—	22
Financial liabilities	(492,752)	—	—	—	—
Trade and other payables	(66,889)	—	(55,095)	(1,446)	(19)
In Rmb'000	<u>(154,837)</u>	<u>9,424</u>	<u>83,522</u>	<u>31,018</u>	<u>3</u>
In US\$'000	<u>(23,616)</u>	<u>1,437</u>	<u>12,739</u>	<u>4,731</u>	<u>—</u>

Group	December 31, 2010				
	Singapore Dollar	Euro Dollars	United States Dollar	Chinese Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other investments	59,615	—	—	—	—
Trade and other receivables	424	20,072	122,757	35,290	18
Cash and cash equivalents	90,804	—	3,117	—	—
Financial liabilities	(152,772)	—	—	—	—
Trade and other payables	(44,901)	(674)	(48,281)	(4,453)	(20)
In Rmb'000	<u>(46,830)</u>	<u>19,398</u>	<u>77,593</u>	<u>30,837</u>	<u>(2)</u>
In US\$'000	<u>(7,143)</u>	<u>2,959</u>	<u>11,835</u>	<u>4,703</u>	<u>—</u>

### Foreign currency risk sensitivity

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

# Notes to the Consolidated Financial Statements

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

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

### Foreign currency risk (cont'd)

	<u>31.12.2009</u> <u>Rmb'000</u> <u>Profit</u> <u>before tax</u>	<u>31.12.2010</u> <u>Rmb'000</u> <u>Profit</u> <u>before tax</u>	<u>31.12.2010</u> <u>US\$'000</u> <u>Profit</u> <u>before tax</u>
Singapore dollar	(15,484)	(4,683)	(714)
Euro dollar	942	1,940	296
United States dollar	8,352	7,759	1,184
Chinese Renminbi	3,102	3,084	470

### Equity price risk

The Group has investment in TCL which is quoted.

#### Equity price risk sensitivity

A 10% increase/(decrease) in the underlying prices at the reporting date would increase/(decrease) equity by the following amount:

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>US\$'000</u>
Equity	4,606	5,663	864

### Credit risk

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

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistic for similar financial assets.

# Notes to the Consolidated Financial Statements

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

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

### Credit risk (cont'd)

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At December 31, 2010, the Group had approximately top 20 customers (2009: top 20 customers) that owed the Group more than Rmb 346.9 million (US\$52.9 million) and accounted for approximately 58% (2009: 70%) of accounts receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 35 customers (2009: 22 customers) with balances greater than 1 million (US\$0.1 million) accounting for just over 82.6% (2009: 81.0%) of total accounts receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 23. The Group does not hold collateral as security.

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

### Liquidity risk

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

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

<b>As at December 31, 2010</b>	<b>One year or less Rmb'000</b>	<b>One to five Years Rmb'000</b>	<b>Total Rmb'000</b>
<b>Financial assets:</b>			
Trade and bill receivables	4,234,475	—	4,234,475
Other receivables:			
Staff advances	3,649	—	3,649
Amounts due under guarantee contracts, net	12,129	—	12,129
Associates	18,604	—	18,604
Other related parties	50,726	58,914	109,640
Others	126,018	6,619	132,637
Cash and cash equivalents	4,060,990	—	4,060,990
	8,506,591	65,533	8,572,124
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	423,543	201,850	625,393
Preference shares	—	861	861
Trade and other payables	7,891,357	—	7,891,357
Finance lease liabilities	9,743	18,008	27,751
	8,324,643	220,719	8,545,362

# Notes to the Consolidated Financial Statements

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

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

### Liquidity risk (cont'd)

As at December 31, 2009	One year or less Rmb'000	One to five years Rmb'000	Total Rmb'000
<b>Financial assets:</b>			
Trade and bill receivables	2,506,701	—	2,506,701
Other receivables:			
Staff advances	7,394	—	7,394
Amounts due under guarantee contracts, net	12,557	—	12,557
Land deposits	5,000	—	5,000
Associates	44,662	—	44,662
Other related parties	20,310	61,222	81,532
Others	91,627	10,961	102,588
Cash and cash equivalents	3,657,981	—	3,657,981
	6,346,232	72,183	6,418,415
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	667,173	411,875	1,079,048
Preference shares	485	1,634	2,119
Trade and other payables	6,187,048	—	6,187,048
Finance lease liabilities	9,748	25,243	34,991
	6,864,454	438,752	7,303,206

## 36. Capital management

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

The capital structure of the Group consists of debts (which includes the borrowings and trade and other payables, less cash and cash equivalents) and equity attributable to owners of the Group (comprising issued capital and reserves).

	31.12.2009 Rmb'000	31.12.2010 Rmb'000	31.12.2010 US\$'000
Interest-bearing loans and borrowings (Note 19)	1,079,048	625,393	95,387
Trade and other payables (Note 29)	6,190,246	7,902,317	1,205,283
Less: cash and cash equivalents (Note 25)	(3,657,981)	(4,060,990)	(619,393)
Net debt	3,611,313	4,466,720	681,277
Equity	5,409,790	6,785,927	1,035,007
Total capital and net debt	9,021,103	11,252,647	1,716,284

# Notes to the Consolidated Financial Statements

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

## 36. Capital management (cont'd)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ending December 31, 2010 and 2009.

## 37. Fair values of financial instruments

### Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Group has a financial asset in level 1. The Group owns shares in Thakral Corporation Ltd (“TCL”), which is a company listed on the main board of the Singapore Exchange Securities Trading Limited (the “Singapore Exchange”) and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. As at 31 December 2010, the Group classified the investment as held for trading and measured the investment at fair value through profit or loss. The Group does not have any financial instruments in level 2 and level 3 of the hierarchy.

### **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value.**

The Group’s financial assets consists of the carrying amounts of trade and bills receivables, other receivables, cash and cash equivalents, interest-bearing loans and borrowings, trade and other payables and other finance lease liabilities approximate their fair value due to their short term nature.

### **Other financial assets and liabilities**

The carrying amounts of other receivables (long-term) and interest bearing loans and borrowings (long-term) approximate their fair value as their interest rates approximates the market lending rate.

# Notes to the Consolidated Financial Statements

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

## **38. Events after the balance sheet date**

### **(a) S\$30.0 million credit facility with Bank of Tokyo-Mitsubishi, UFJ Ltd, Singapore Branch (“BOTM”)**

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

### **(b) US\$30.0 million credit facility with Sumitomo**

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

### **(c) Changes in shareholding of HLGE**

With the conversion of 17,234,000 Existing HLGE RCPS B into HLGE ordinary shares on the Mandatory Conversion Date, the Company's shareholding interest in HLGE increased from 47.4% to 48.4% with effect from March 24, 2011 upon receipt of regulatory approval.



# Notes to the Consolidated Financial Statements

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

## **38. Events after the balance sheet date (cont'd)**

### **(d) Yuchai Rmb 1 billion short-term financing bonds**

Yuchai has received approval from China's National Association of Financial Market Institutional Investors ("NAFMII") for the issuance of RMB-denominated unsecured short term financing bonds amounting to Rmb 1.7 billion ("Bonds"). The Bonds are to be issued in two tranches. The first tranche of the Bonds amounting to Rmb 1 billion was issued on March 9, 2011 and will mature on March 9, 2012. The par value and issue price of each Bond is Rmb 100. The first tranche of the Bonds bears a fixed annual interest rate of 4.59%. Yuchai intends to issue the second tranche of the Bonds with a principal amount of Rmb 700 million in China at a later date, subject to market conditions. Subscription to and trading of the Bonds is only available in China to institutional investors of China's National Inter-bank Bond Market. The lead underwriter and bookrunner for the first tranche of the Bonds was the Industrial and Commercial Bank of China. All the proceeds from the issuance of the Bonds are to be used by Yuchai as working capital.

### **(e) Sale and leaseback agreement**

On January 2011, Yuchai terminated the sale and leaseback agreement signed with CDB Leasing Company Limited ("CDB") in 2009. YAMC repaid approximately RMB28 million in a lump sum to CDB for redemption of the full ownership of the finance lease assets.

### **(f) Sale of Guilin office building**

On April 27, 2011, Guangxi Yulin Hotel Company Limited entered into a sale and purchase agreement with a third party to sell its office building located in Guilin, Guangxi province for a total consideration of Rmb 120 million, where Rmb 60 million of down payment will be paid within 15 working days from the contract date, and the remaining Rmb 60 million will be paid by November 30, 2011.

## Reference Information

US Transfer Agent and Registrar  
BNY Mellon Shareowner Services  
480 Washington Boulevard 29<sup>th</sup> Floor  
Jersey City, NJ 07310  
United States of America

Investor Relations  
Grayling USA  
405 Lexington Avenue, 7<sup>th</sup> Floor  
New York, NY 10174  
USA

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

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China Yuchai International Limited

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