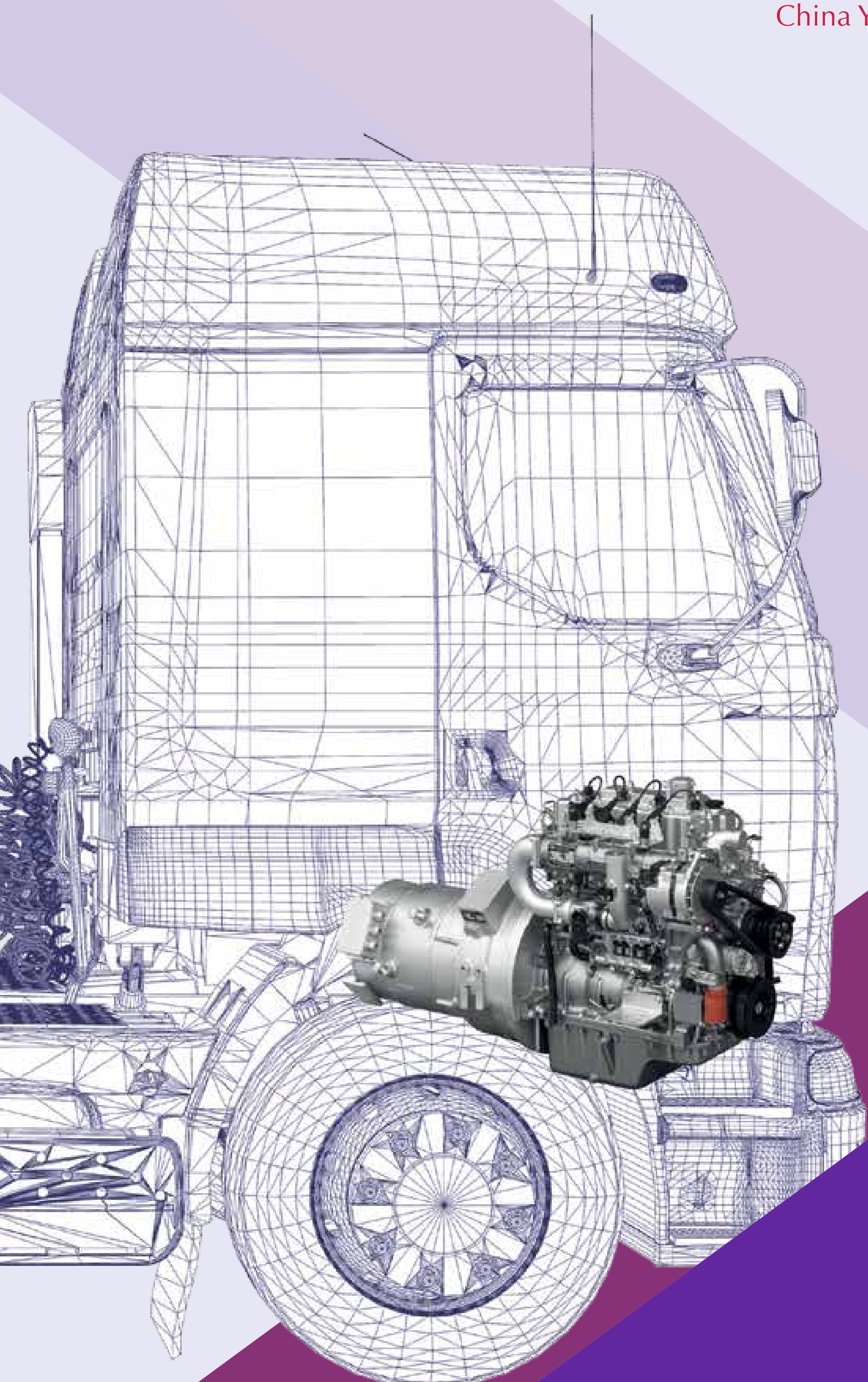
China Yuchai International Limited

Annual Report 2016



Empower Our Business

Deliver **Sustainable Value**

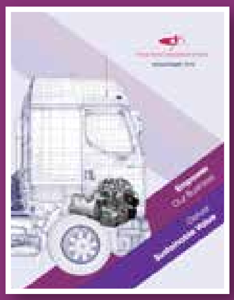
We launched **4 NEW ENGINE MODELS** meeting China's latest emission standards for use in both on- and off-road applications in 2016.

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

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

We delivered China's first **GAS-ELECTRIC HYBRID SYSTEM** for the truck market in 2016.

We launched the first **GAS-ELECTRIC POWER SYSTEM** for inland waterway cargo vessel in 2016.



Front Cover: Engine depicted is the YC4EG170N, a hybrid engine system consisting of a natural gas engine and a plug-in charging battery. The engine is compliant with China's National V emission standards and can be used in both truck and bus applications.

CHINA YUCHAI'S CORE IDEALS 玉柴国际的核心理念

VISION

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

愿景

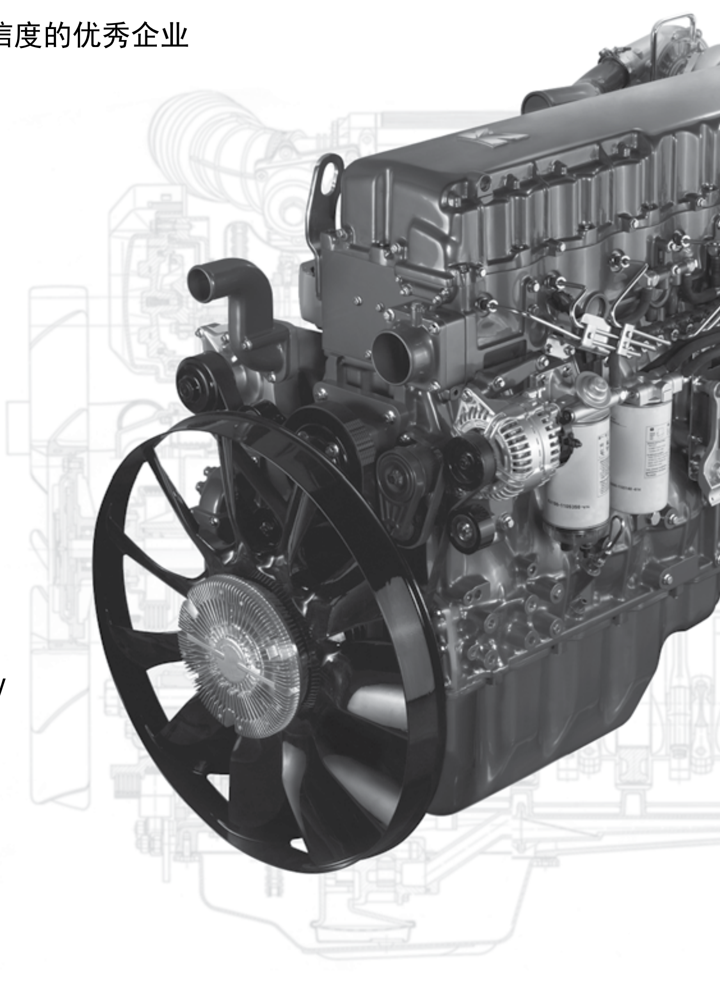
成为卓越环保发动机和汽车系统制造商和提供优良产品及一流服务的供应商

MISSION

- Utilize our product excellence and leadership to meet customers' automotive and power demands
- Establish China Yuchai as a high performance and highly respected global corporation
- Lead in the pursuit of business excellence, responsible corporate citizenship and trusted integrity
- Create an environment that is a great place to work for our employees

使命

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



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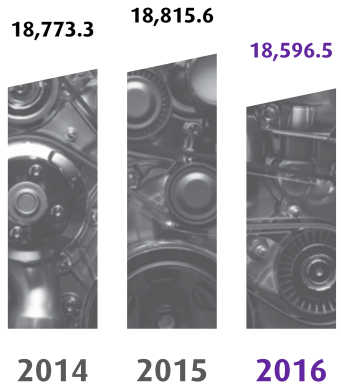
FINANCIAL HIGHLIGHTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000
Revenue	16,436,142	13,733,437	13,664,840
Profit attributable to equity holders of the parent*	730,280	341,108	515,737
Total assets	18,773,336	18,815,602	18,596,506
Equity attributable to equity holders of the parent	6,988,432	7,239,617	7,683,834

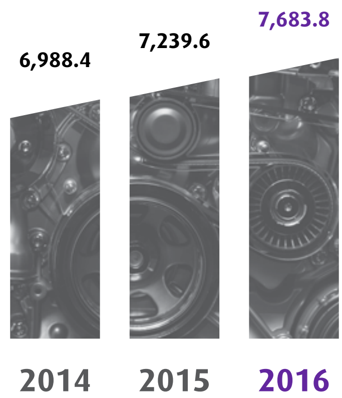
	2014	2015	2016
Earnings per share attributable to ordinary equity holders of the parent (Rmb per share)	19.36	8.81	12.89
Weighted average number of shares	37,720,248	38,712,282	40,016,808

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

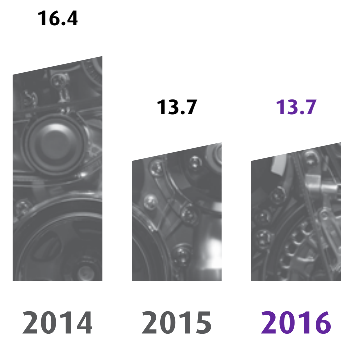
TOTAL ASSETS
(in RMB million)



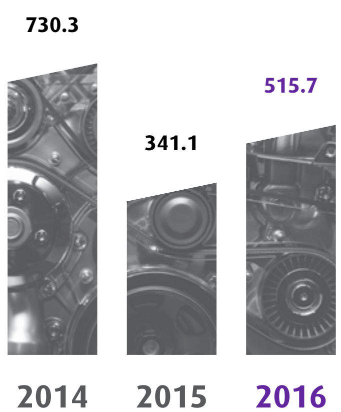
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in RMB million)



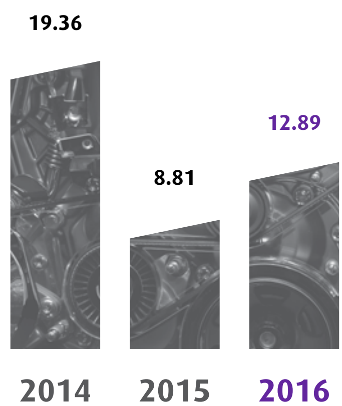
REVENUE
(in RMB billion)



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



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



PRESIDENT'S STATEMENT

REVENUE	OPERATING PROFIT	ENGINES SOLD
RMB13.7bn	RMB1.0bn	320,424

Dear Shareholders,

The Chinese economy grew 6.7% in 2016 which was a slightly slower pace compared with the 6.9% in 2015. The projected rate of growth for 2017 is 6.5%, a 25-year low. It is expected that China's growth rate will remain at this level for the next few years as China continues to restructure its economy and address both external and internal pressures on its economy. In 2016, the Chinese government implemented supply-side structural reforms to cut industrial overcapacity, reduce housing inventory, lower financial leverage, and encourage corporate restructuring as part of its rebalancing efforts.

In 2016, while growth in the commercial vehicle engine market in China was aided by government regulators adhering to strict enforcement of anti-overloading rules in the truck market, it was negatively impacted by surging sales of electric vehicles ("EV") in the bus market, declining sales of natural gas- powered engines and lower sales in the off-road segment due to the implementation of the stricter Tier-3 emission standards.

Despite the various challenges and uncertainties in the prevailing climate, we managed to remain profitable, generate free cash-flow and maintain our market position as the leading manufacturer of commercial vehicle engines with a broad portfolio of advanced engines serving multiple markets in both the on- and off-road markets. Our net sales in 2016 were RMB 13.7 billion (US$2.0 billion) versus RMB 13.7 billion in 2015 with earnings per share climbing to RMB 12.89 (US$1.87) from RMB 8.81 in 2015.

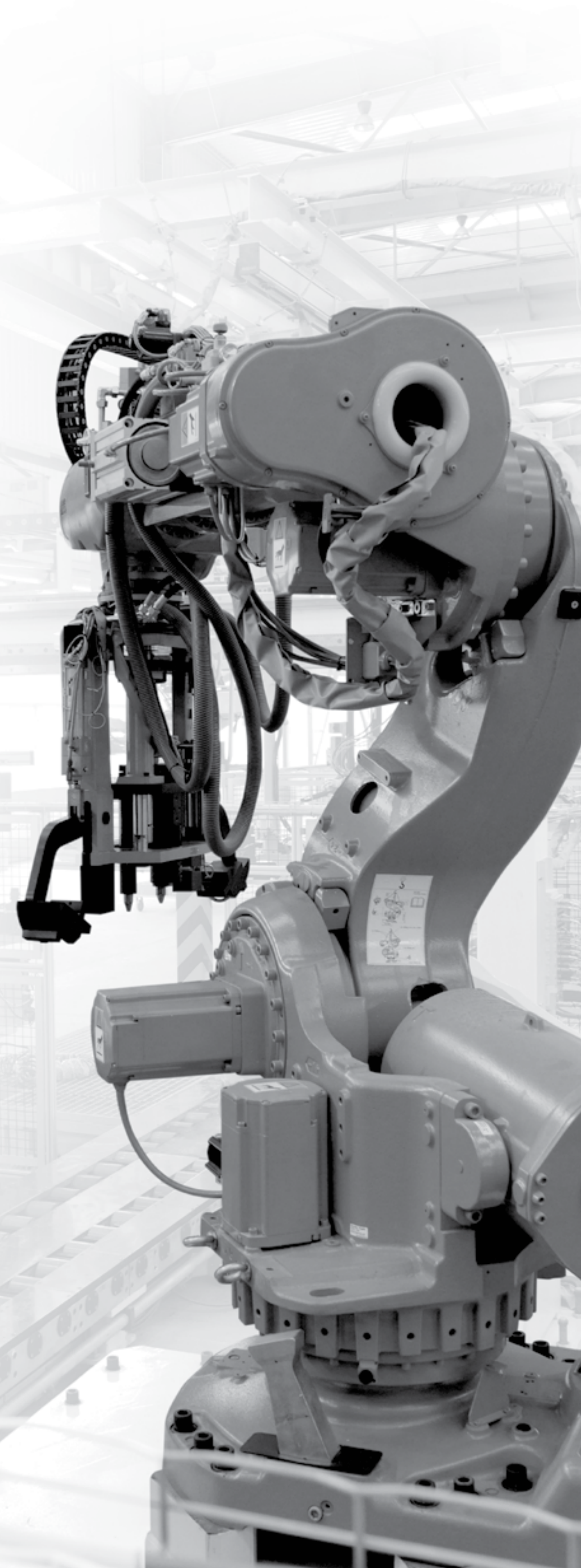
We sold a total of 320,424 engines in 2016 compared with 364,567 units in 2015. Our unit sales volume declined 12%, compared with the industry wide increase of 8.3% in unit sales of commercial vehicles (excluding gasoline-powered and electric vehicles), as reported by the China Association of Automobile Manufacturers ("CAAM"). However, sales of our truck engines achieved double-digit growth on a year-on-year basis in 2016. Although our engine sales to the bus market declined, we continued to maintain the largest market share in this segment and also attained significant growth in the marine/power generation engine market.

In the truck space, according to CAAM, total truck sales (excluding gasoline-powered and electric vehicles) increased 11.6% in 2016. Light-, medium- and heavy-duty trucks all experienced growth during the year which were due to ongoing infrastructure construction spending and replacement of older trucks. Noticeably, the medium- and heavy-duty truck market grew by 13.4% and 33.1% respectively. Beginning in September 2016, stricter enforcement of the anti-overloading regulations drove the increase in large truck sales as the Chinese government sought to remove illegally configured trucks carrying more than their legally allowed capacities. The weight and size of the different truck classes are clearly specified by the regulations. As a result of the government's strict enforcement of the anti-overloading regulations, fourth quarter truck sales grew by 21.4% led by a 69.5% increase in heavy-duty truck sales. Strong growth in the truck market helped offset the impact of a weak non-EV bus market in China.

The overall sluggish performance of the bus engine market in the past two years was mainly attributable to the sales growth in the pure EV market. In 2016, EV sales increased to 139,060 units, up from 86,813 in 2015. This increase in EV sales was generated by substantial subsidies granted by the Chinese government as part of its policy to build China's EV industry. The rapid increase in sales of EV commercial vehicles, particularly in the municipal bus segment, impacted on sales of our diesel and natural gas engines in the bus segment in 2015 and 2016. The impact of EV bus sales has been felt primarily in the municipal bus market particularly in the large cities. The Chinese government has indicated its intention to reduce the subsidies in 2017 with their eventual elimination after 2020 resulting in a level playing field especially in the municipal bus market. As the leader in the bus engine segment, we look forward to penetrating further into the municipal bus market in large cities and maintaining our engine sales in the school and inter-city bus markets.

Despite lower sales of our bus engines, we remain the leader in the bus engine market in China, with significant growth in overseas markets such as Thailand and Saudi Arabia. In the domestic China market, our new customers in 2016 included Shanghai Shenlong Bus and the Lanzhou Mass Transit Company. Among our bus OEM customers, Suzhou Kinglong Bus Co. Ltd., Xiamen Golden Dragon Bus Co. Ltd, and Foton Bus Co. Ltd., remain our largest customers in 2016. We extended our leadership in the hybrid engine market as our hybrid engines were sold to Xiamen Golden Dragon Yichun City Bus Co. Ltd., the Chongqing Pengshui Public Transportation Company, the Lanzhou Mass Transit Company and to the Inner-Mongolia Tian'an Public Transportation Group in Erdos City and Xilinhot City. Our hybrid engines are preferred in Chongqing's hybrid engine market for their high quality and performance. The success of our diesel-electric and gas-electric hybrid engines demonstrates our commitment to developing the best environmentally friendly solutions, as these engines are compliant with National V and VI emission standards, which exceed the current applicable National IV emission standards.

Our third largest end-user market, the off-road segment, experienced the largest decline in sales in 2016. The nationwide transition to the more stringent Tier-3 emission standards negatively impacted our sales in this segment, especially in the important agriculture and farming equipment sectors. The agriculture sector has been an important growth driver for us over a number of years prior to 2016, as more powerful engines were used to drive larger equipment to improve farming yields and increase production. With the transition to Tier-3 emission standards completed in December 2016, we are seeing improved orders for our



PRESIDENT'S STATEMENT

Tier-3 engines for the agriculture segment in early 2017 and we are optimistic over sales growth and market share recovery in 2017. As an independent on- and off-road engine producer, we attribute our market share leadership in the Chinese engine market to our industry leading Research & Development ("R&D") program. As a technology leader in the commercial vehicle engine market, our aim is to increase engine performance with an emphasis on first-to-market engines in China meeting emission standards exceeding the existing applicable standards. With this strategy, we are able to enhance relations with existing customers, win new orders, create more selling opportunities for other engines and gain recognition for our strength in technological innovation and advancement. In 2016, we increased our investment in R&D to sustain our leadership in the Chinese commercial vehicle engine market. As a percentage of net revenue, R&D spending increased to 4.3% compared with 3.7% in 2015. Our R&D program continues to introduce new engines and further enhancements to our broad line of diesel, natural gas, hybrid and high-horsepower engines. We launched our second National VI compliant engine, released our model YC16VC and other high-power marine engines, and launched a series of National V and Tier-3 compliant engines for the light-, medium- and heavy-duty engine markets. We have expanded our engine portfolio to meet new emission standards and in the truck segment, we introduced China's first gas-electric plug-in hybrid truck engine at the Xinjiang International New Energy Vehicle and Electric Car Exhibition in Urumqi.

A greater emphasis on R&D is necessary as the engine manufacturing industry requires continued improvement in product quality. During 2016, our subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL"), won the China Quality Award Nomination for the second time. The Company won this award due to its lean management model for waste reduction and sustainable improvement. GYMCL also won the second prize for its "Key Technology and Application of Low-noise Diesel Design" at the National Prize for Progress in Science and Technology. Furthermore, its "Key Technology and Equipment for Die-free Composite Molding of Complicated Castings" project won the grand prize at the 2016 China Machinery Industry Science and Technology Awards. These awards enhance our reputation with customers and our standing in the commercial vehicle industry.

While continuing our success in the China market, international markets are also an important new growth area. In 2015, we formed a new joint venture, YC Europe Co., Ltd., in Hong Kong and YC Europe GmbH to exclusively market off-road diesel and gas engines (excluding marine engines) and their spare parts throughout Europe, as well as provide services in engine-related areas. In the fourth quarter of 2016, GYMCL's flagship YC engine series including models YC12VC, YC6C, YC6T, YC6TD, YC6A and YC4G along with their 26 products, received CE certification from the European Union AV Technology's Notified Body, clearing the pathway for our engines to enter the European market.

We are also actively expanding our technological capabilities through international partnerships. In February 2016, we announced a 50/50 joint venture with MTU Friedrichshafen Gmbh, a subsidiary of Rolls-Royce Power System, to broaden our portfolio of advanced Tier-3 compliant high-speed, large rating off-road engines. This new joint venture will produce the MTU series 4000 diesel engines compliant with China's Tier-3 emission standards with power output ranging from 1,400 to 3,490 kW. The initial primary off-road markets include power generation and oil & gas applications in China. This cooperation will enhance our off-road product offerings in China and potentially expand our distribution opportunities into international markets.

The engine manufacturing business is by nature capital intensive and we are committed to financial discipline and operational prudence. Financing and operating policies are constantly scrutinized to optimize our operational performance, provide the necessary resources and enhance our market position. During 2016, as we continued to closely track our inventory levels to adjust our production to match demand, we lowered our debt ratio and increased the return on invested capital. We generated positive cash flow to improve our financial strength and fund our capital expenditures. Net cash flow from operating activities increased to RMB 2.3 billion (US$ 331.1 million) in 2016 from RMB 1.7 billion in 2015 and from RMB 0.5 billion in 2014. Purchases of property, plant and equipment declined to RMB 351.5 million (US$ 51.1 million) in 2016 from RMB 397.8 million in 2015 and from RMB 660.9 million in 2014. Cash, cash equivalents and short-term bank deposits increased to RMB 4.0 billion (US$ 584.3 million) at December 31, 2016 compared with RMB 3.5 billion at December 31, 2015. We significantly lowered our short- and long-term debt level to RMB 910.4 million (US$ 132.4 million) from RMB 2.5 billion at the end of 2015. Equity attributable to equity holders of the parent increased to RMB 7.7 billion (US$ 1.1 billion) at December 31, 2016 from RMB 7.2 billion a year ago.

For the fiscal year 2015, even though we generated earnings-per-share of US$1.35, we declared a dividend of US$0.85 per share and returned approximately US$17.8 million in cash to shareholders who elected to receive cash in lieu of shares. We believe dividends are our key strategy in enhancing shareholder value over the long-term.

We are expecting a better performance in 2017 compared to 2016 as the Chinese economy gradually stages a comeback fueled by increased infrastructure development and growing consumer spending. We are continually improving our manufacturing efficiency by adopting additional lean manufacturing processes and company-wide reforms. Our technological advantages will continue to propel our growth and expansion. The changes we instituted in 2016 have positioned us for continued success in a shifting market for commercial engines with our advanced technology, broad portfolio of engines, enhanced manufacturing and our extensive service network. As a leading engine supplier to both the on- and off-road Chinese commercial vehicle markets, we are well positioned to benefit from the renewed growth in China.

Weng Ming HOH
President
May 12, 2017

总裁致词

尊敬的股东们，

中国经济在2016年增长了6.7%，与2015年的6.9%比较，是一个稍微慢的增长速度。预计在2017年的增长率为6.5%，将会是25年来的新低点。在未来几年里，随着中国持续经济结构调整，平衡外部和内部经济压力，预计中国的经济增长率将保持在这个水平。在2016年里，中国政府实现供应结构性改革，削减工业产能过剩，减少房屋库存，降低财务杠杆，并鼓励企业重组平衡经济。

在2016年，得益于政府监管机构在卡车市场严格执行反超载条例，虽然也受到电动汽车在汽车市场销量激增的负面影响，中国商用车发动机市场有所增长。同时天然气动力发动机销售下降。同时由于实现更严格的第三阶段排放标准，非道路用产品的销量也在下降。

尽管各种挑战和不确定性的大环境下,我们维持盈利，并确保自由现金流，并以广泛投资组合先进及提供道路及非道路用发动机市场服务，并保持在商用车发动机制造商的领先市场地位。与2015年137亿人民币比较，我们在2016年净销售额为137亿元人民币（合计20亿美元）。每股收益从2015年的8.81元人民币，攀升至12.89元人民币（1.87美元）。

与2015年的364,567台发动机销量比较，我们在2016年总共卖出了320,424台发动机。跟据中国汽车工业协会报告，相比之下行业在商用车销量增长了8.3%（不包括汽油和电动汽车），我们总体销量下降了12%。然而，我们的卡车发动机在2016年实现两位数的同比增长。尽管我们的发动机在客车市场销售同比有所下降，但我们继续维持在该领域的最大的市场份额，并在船用及发电机组市场获得显著的增长。

在卡车市场，根据中国汽车工业协会，卡车2016年的总销量（不包括汽油和电动汽车）增加了11.6%。由于持续的基础设施建设支出和新旧卡车的替换，轻型、中型和重型卡车的销量在今年持续增长。值得注意的是，中型和重型卡车市场分别增长了13.4%和33.1%。从2016年9月开始，中国政府严格执行反超载规定以禁止超限超载的非法运输行为，刺激大卡车销量的增长。新法规明确卡车各种级别的具体载重量和大小。由于政府对反超载规定的严格执行，第四季度卡车销售增长了21.4%，其中重型卡车销售增加了69.5%。卡车市场的强劲增长在一定程度上抵消非电动车市场疲软的影响。

在过去的两年里，客车发动机市场的整体疲软主要是归因于纯电动汽车市场的销售增长。在2016年，电动汽车销售总量自2015年86,813台增长至139,060台销量。电动汽车销量的增加是由于中国政府建立中国电动汽车产业并给予大量补助的政策。电动商用车销售，尤其是在城市公交方面快速增长，在2015年和2016年大大影响柴油和天然气发动机在客车领域的销售。受到电动公交车的影响主要在大城市市政公交市场。中国政府已表示有意减少2017年补贴，并与2020年后回归一个公平竞争的环境尤其是在市政客车市场。作为客车发动机领域的领导者，我们期待进一步渗透到大城市的市政客车市场，并维持我们的发动机在学校和城际公交市场的销售。

尽管客车发动机销量下降，我们仍然在中国客车发动机市场处于领先地位。同时泰国和沙特阿拉伯等海外市场显著增长。在中国国内市场，2016年我们的新客户包括上海神龙客车和兰州轨道交通公司。我们的客车OEM客户包括苏州金龙客车有限公司、厦门金龙汽车有限公司、北汽福田汽车股份有限公司，这些客户仍然是我们2016年最大的客户。我们确立在混合动力发动机市场的领导地位。我们的混合动力发动机已经销售给厦门金旅伊春城市客车有限公司、重庆彭水公交运输公司、兰州轨道交通公司和在内蒙古鄂尔多斯城市和锡林浩特市的城市公共交通集团。我们的混合动力发动机也成为重庆的混合动力发动机市场的高质量和性能的首选。柴油电动和油电混合动力发动机的成功表明了我们致力于发展最好的环保解决方案，这些发动机符合国五和国六排放标准，并超过当前国四排放标准。

我们的第三大终端用户市场—非道路用市场，在2016年经历了巨幅销售下降。由于全国向更严格的第三级排放标准过渡，导致这一领域的销售产生重大负面影响，尤其是在重要的农业和农业设备市场方面的销售。农用设备，在2016年前的多年来一直是一个重要的增长动力，更强大的发动机是用于驱动更大的设备来提高农业产量和增加产量。第三阶段排放标准的过渡已在2016年12月完成。在2017年初，我们看到农用机方面第三阶段排放标准发动机的订单情况有所改进。我们乐观估计在2017年度销售增长和恢复市场份额。作为一个独立的非道路用发动机生产商，我们认为我们的市场份额领导地位归因于我们的行业领先的研究与开发（“研发”）计划。作为商用车发动机市场技术领先者，我们的目标是提高发动机的性能，并着重于以超过现有的中国适用标准，率先对市场投放更高排放标准发动机。通过这个策略，我们可以加强与现有客户的关系，赢得新订单，为其他发动机创造更多销售机会，获得对我们技术创新和进步力量的认同。在2016年我们通过增加研发投资来维持我们在中国商用车发动机市场的领导地位。以净营收净比来看，研发支出从2015年的3.7%增加到4.3%。我们的研发项目继续开发新型发动机，进一步增强我们的柴油、天然气、混合和大马力发动机的广泛性。我们推出了我们的第二个国六的发动机，推出YC16VC型号和其他大功率船用发动机，并推出了一系列国五和第三阶段非道路用的发动机，中型和重型发动机市

场。我们扩展发动机组合以满足新的排放标准和卡车部分，我们在新疆乌鲁木齐国际新能源汽车和电动汽车展览中推介了中国第一个油电混合动力卡车发动机。

因为发动机制造业需要持续改进产品质量，更注重研发是必要的。在2016年，我们的子公司,广西玉柴机器股份有限公司（“玉柴股司”），第二次获得了中国质量奖提名奖。由于公司对废物减少和可持续的改善精益管理模式，赢得了这个奖项。玉柴股司也以“柴油低噪声设计关键技术及应用”也赢得了国家科技进步二等奖的。此外，“复杂铸件无模复合成形制造关键技术与装备”项目荣获2016年度中国机械工业科学技术奖特等奖。这些奖项大大提高我们在客户中的信誉及我们在商用车行业的立足之地。

我们在中国市场继续获得成功的同时，国际市场也成为一个重要的新增长点。在2015年，我们在香港成立了一个新的合资企业玉柴欧洲有限公司。其全资子公司YC Europe GmbH在整个欧洲提供非道路用途柴油和天然气发动机(不包括船用发动机)及其零部件，以及在发动机相关领域提供服务。在2016年第四季度，玉柴股司旗舰YC系列发动机包括模型YC12VC、YC6C、YC6T、YC6TD、YC6A和YC4G及其26个产品获得欧盟CE认证AV技术监定机构，畅通玉柴发动机进入欧洲市场的道路。

我们还通过国际合作积极扩大我们的技术能力。在2016年2月，我们宣布了与劳斯莱斯旗下的动力系统公司MTU Friedrichshafen Gmbh共同设立50/50合资公司，以扩大我们先进的第三阶段符合高速、大评级非道路发动机产品线。这个新的合资企业将生产符合中国的第三阶段排放标准输出功率从1,400到3,490千瓦的MTU 4000系列柴油机。最初使用非道路市场主要包括在中国发电、石油和天然气应用。这项合作将增强我们在非道路产品的生产线，并可能扩大我们进入国际市场的分销机会。

发动机制造企业在本质上是资本密集型，我们致力于加强财务纪律及谨慎运营，不断审查融资和运营政策并优化我们的运营能力，并提供必要的资源，增强我们的市场地位。在2016年期间，我们继续紧密跟踪库存水平以调整生产与需求，通过降低负债比率，增加了投资资本回报率。我们拥有正现金流以改善我们的财务实力和基建资本支出。经营活动净现金流量从2014年的5亿元人民币，2015年的17亿元人民币增加到23亿元人民币（合计3.311亿美元）。购买财产、厂房和设备从2014年的6.609亿元人民币，2015年的3.978亿元人民币下降至3.515亿元人民币(合计5110万美元)。现金、现金等价物和短期银行存款从截止至2015年12月31日的35亿元人民币增长到截止至2016年12月31日的40亿元人民币（合计5.843亿美元）。我们大大降低了短期和长期债务水平，自2015年底的25亿元人民币下降到9.104亿元（合计1.324亿美元）。归属于母公司所有者权益从一年前的72亿元人民币增长到截止至2016年12月31日77亿元人民币（合计11亿美元）。

虽然在2015财政年度每股收益为1.35美元，2016年6月，我们宣布股息每股0.85美元并分发大约1,780万美元现金给选择接收现金代替股票的股东。我们相信股息是提高股东长期投资价值的关键策略。

与2016年比较，随着基础设施建设和消费支出的不断增长，中国经济逐渐回暖，我们期待能在2017年有更好的表现。我们不断改进生产效率，采用更加的精益流程并在全公司范围改革，并以我们的技术优势继续推动增长和扩张。我们在2016年进行的变革，我们的先进技术，广泛投资组合的发动机，提高生产和广泛的服务网络，使公司持续成功的适应变化的商业发动机市场。作为一个领先的道路及非道路中国商用车市场的发动机供应商，我们将进一步受益于在中国经济恢复增长。

何永明
总裁
2017年5月12日

CORPORATE BACKGROUND

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

The Group's principal operating subsidiary Guangxi Yuchai Machinery Company Limited ("GYMCL") is one of the largest engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL engages in the manufacture, assembly and sale of a wide variety of light-, medium- and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, and marine and agriculture applications in China. GYMCL also produces engines for diesel power generators. The engines produced by GYMCL range from diesel to natural gas and hybrid engines. Through its regional sales offices and authorized customer service centers, GYMCL distributes its engines directly to original equipment manufacturers and retailers and provides maintenance and retrofitting services throughout China.

GYMCL's products range from 1.2L to 80L over 10 engine platforms with a power range from 60PS to 2400PS. In its current portfolio, the number of engine series offerings is 28 and GYMCL is intending to further expand its reach in the natural gas engine market as well as in the off-road markets with improved product offerings such as the high horsepower marine diesel engine and power generator engine. GYMCL produces diesel engines compliant with National IV and V emission standards, and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. GYMCL also has the ability to produce diesel engines compliant with Tier 3 emission standards for use in off-road machinery.

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

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

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

公司背景

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

玉柴国际的主要子公司广西玉柴机器股份有限公司（“广西玉柴”）是中国最大的发动机制造商之一。广西玉柴位于中国南部的广西壮族自治区玉林市。公司生产、制造和销售多样化的机型产品，包括满足卡车、客车、乘用车、工程机械、船机和农用机械需求的轻型、中型和重型发动机、发动机零部件及柴油发电机。广西玉柴生产的的发动机包括从柴油发动机至天然气和混合动力发动机。通过其授权地区销售办事处和客户服务中心，广西玉柴向原始设备制造商直接提供发动机，或者在中国全境向零售商提供维修和翻新服务。

广西玉柴产品涵盖十个主要机型容量从1.2升到80升，功率从60马力到2400马力的各种类型发动机。依托于现有组合，其有28个系列的发动机并且将进一步扩大其在燃气发动机及非道路发动机市场份额，通过大马力的船用柴油发动机及发电机等改善产品组合。尽管玉柴生产符合国四与国五排放标准的柴油发动机，及国五排放标准的天然气发动机，其也有能力生产一定的符合国六排放标准的柴油发动机和天然气发动机，同时研发替代能源及环境友好型混合动力发动机。玉柴同时也有能力生产符合国家Tier3排放标准的满足非道路应用的柴油发动机。

广西玉柴以其高效可靠的产品性能及卓越的售后服务在汽车制造商和消费者中享有极高的声誉。目前玉柴国际通过其6家全资子公司持有广西玉柴76.4%的股权。

此外，玉柴国际投资一家新加坡交易所主板上市的公司–丰隆环球有限公司（“丰隆环球”）。玉柴国际目前持有丰隆环球48.9%的股权。

丰隆环球的核心业务是酒店经营与房地产开发。

OUR CHINA-WIDE PRESENCE

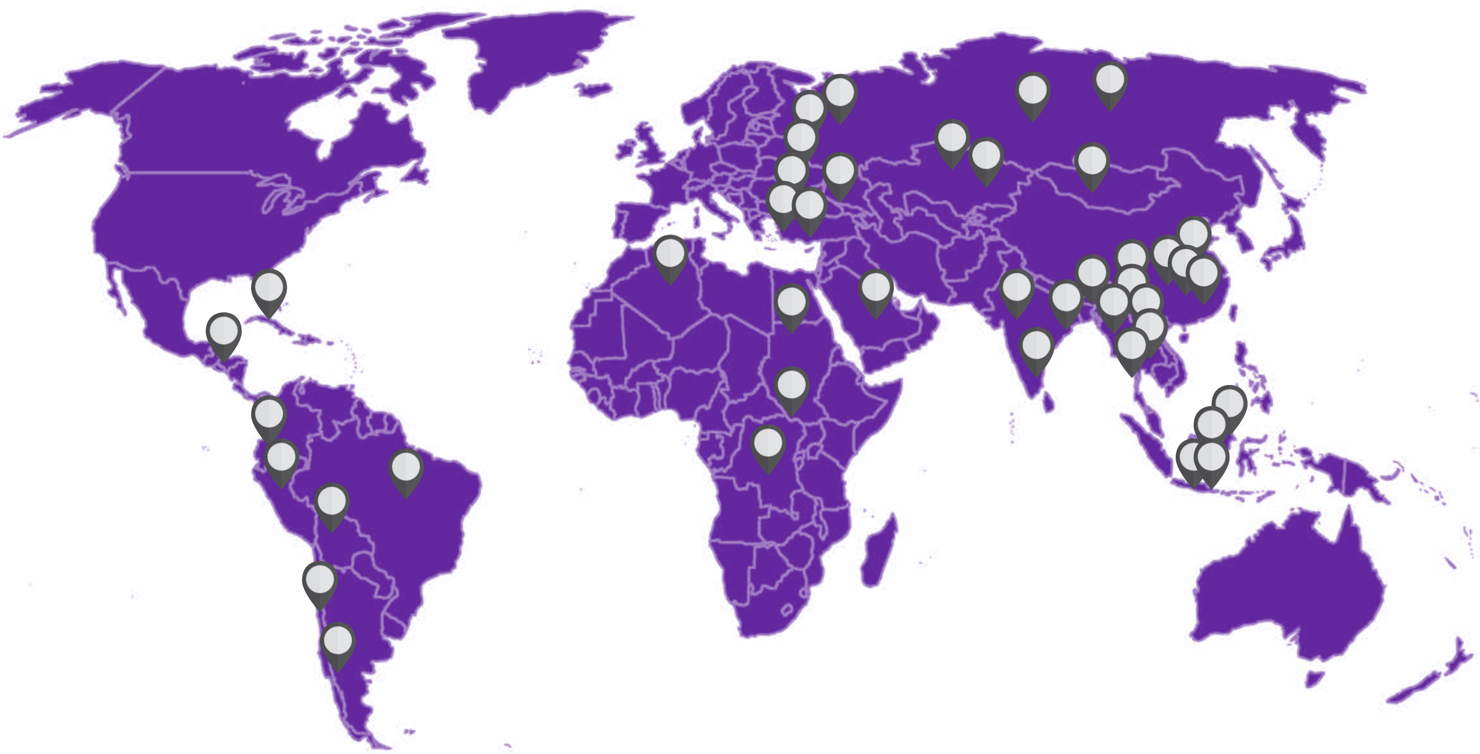
Guangxi Yuchai Machinery Company Limited
公司总部

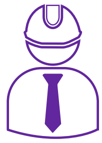
43 regional offices
玉柴办事处

2,722 customer service stations
玉柴技术服务站

As of April 2017

YUCHAI OVERSEAS NETWORK





OVERSEAS SERVICE AGENTS APPOINTED AS OF APRIL 2017

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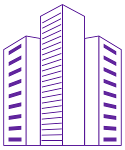

OVERSEAS OFFICES

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DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of February 28, 2017, there were eight members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yiyong are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

Our directors and executive officers are identified below.

NAME	POSITION	YEAR FIRST ELECTED OR APPOINTED DIRECTOR OR OFFICER
HOH Weng Ming (1)(4)	President and Director	2011
GAN Khai Choon (1)(4)	Director	1995
KWEK Leng Peck (1)(2)	Director	1994
YAN Ping (1)	Director	2012
WU Qiwei (1)	Alternate Director to YAN Ping	2012
NEO Poh Kiat (1)(2)(3)	Director	2005
TAN Aik-Leang (1)(3)	Director	2005
HAN Yiyong (1)	Director	2010
HO Chi-Keung Raymond (2)(3)	Director	2013
PHUNG Khong Fock Thomas (1)	Chief Financial Officer	2016
FOO Shing Mei Deborah	General Counsel	2007
LAI Tak Chuen Kelvin (1)	Vice President of Operations	2010
Conyers Corporate Services (Bermuda) Limited (5)	Secretary	2015

Dr. Phung Khong Fock Thomas was appointed Chief Financial Officer with effect from June 1, 2016 to replace Mr. Leong Kok Ho who relinquished his position in order to assume the role of Chief Financial Officer at Hong Leong Asia.

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

BOARD OF DIRECTORS

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

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

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

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

MR. WU QIWEI is an Alternate Director of the Company to Mr. Yan Ping and the President and a director of Yuchai. He previously served as one of the Deputy General Managers of Yuchai and was in charge of sales and marketing. He holds a Bachelor of Engineering Degree from Hunan University, an MBA degree from the Huazhong University of Science and Technology and a Doctorate in Marine Engineering from Wuhan University of Technology.

MR. NEO POH KIAT is a Director of the Company and Yuchai. He is the Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd, a financial advisory firm in Singapore. Between August 1976 and January 2005, he held various senior managerial positions with companies in the DBS Bank group and United Overseas Bank Ltd. Mr. Neo is currently also a director of Asia Airfreight Terminal Co Ltd, Cambodia Post Bank Plc, Fullerton Credit (Sichuan) Ltd, Fullerton Credit (Chongqing) Ltd, Fullerton Credit (Hubei) Ltd and Fullerton Credit (Yunnan) Ltd. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

MR. TAN AIK-LEANG is a Director of the Company and Yuchai. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan was also a Director of the Risk Management Association, Hong Kong Chapter from May 2000 to January 2016. Mr. Tan graduated in Accounting from Western Australian Institute of Technology (now known as Curtin University). He is a Fellow member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

MR. CHI-KEUNG HO RAYMOND was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an independent Director on April 30, 2013. He is now practicing as an independent Arbitrator; and also as an Of Counsel of Fred Kan & Co., a law firm based in Hong Kong with an operation in Tokyo. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining the secretariat of the Law Society in 2006, he had practiced law for 23 years since 1983. He holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the panel of arbitrators of the Hong Kong International Arbitration Centre. He is a practicing member of the Law Society of Hong Kong; and a non-practising member of The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho currently is a Director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

MR. HAN YIYONG is a Director of the Company and Yuchai. He is also the Chairman and a Director of Coomber as well as the Company Secretary to Yuchai's Board of Directors. He holds a Bachelor's Degree in Vehicle Engineering from the Shandong University of Technology and a Master's Degree in Power Machinery and Engineering from Guangxi University.

EXECUTIVE OFFICERS OF THE COMPANY

DR. PHUNG KHONG FOCK THOMAS was appointed Chief Financial Officer of the Company on June 1, 2016. He was appointed a Director of Yuchai with effect from January 23, 2017. Dr. Phung has over 20 years' experience in both the manufacturing and service sectors. Prior to this appointment, Dr. Phung was the East Asia Pacific Finance Director for Alstom Transport (Singapore) Pte Ltd. He has also worked at Bombardier Transportation group, Thales GeoSolutions (Asia Pacific), Glaxo SmithKline Singapore Pte Ltd and Baker Oil Tools, a Baker Hughes company. At Shandong Asia Pacific SSYMB Pulp & Paper Co. Ltd, he was based in Shandong, China for three years. Dr. Phung started his career as a credit authorizer at Bank of America in Singapore. Dr. Phung received his PhD in Finance from Cass Business School, City University in London in 1998 and an MBA in Financial Management from Hull University Business School in Hull, UK in 1994.

MS. FOO SHING MEI DEBORAH was appointed General Counsel of the Company with effect from December 10, 2007. Ms. Foo has more than 20 years' of commercial and corporate experience gained from various in-house positions in Singapore and Hong Kong. Prior to joining the Company, she held the positions of Vice President of Group Legal and Company Secretary at NASDAQ-listed Pacific Internet Limited. She holds a BA (Hons) in Law and History from the University of Keele, UK and a Masters of Law Degree in Commercial and Corporate law from the University of London, UK. She is a Barrister-at-Law (Middle Temple) and is admitted as an Advocate and Solicitor in Singapore.

MR. LAI TAK CHUEN KELVIN was appointed Vice President of Operations of the Company on June 7, 2010. He was appointed Chief Business Officer and a Director of Yuchai on March 11, 2011 and June 28, 2013, respectively. Mr. Lai holds a Bachelor of Business Administration in Management from the Open University of Hong Kong as well as a Postgraduate Certificate in Engineering Business Management from the University of Warwick, UK. He worked for ten years as a marine engineer in a shipping company before moving on to Rolls-Royce International Ltd where he held various positions, over a period of 14 years, in their power generation and industrial power business covering the Greater China Region including Taiwan. He has also worked for Cummins Hong Kong Ltd as General Manager in their diesel engine distribution and aftermarket business covering Southern China and Hong Kong.

CORPORATE GOVERNANCE

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

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

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

STANDARD FOR US DOMESTIC LISTED COMPANIES	CHINA YUCHAI INTERNATIONAL LIMITED'S PRACTICE
Director Independence	
• A majority of the board must consist of independent directors.	• Three of our eight directors, Messrs. Neo Poh Kiat, Tan Aik-Leang and Ho Chi-Keung Raymond are independent within the meaning of the NYSE standards.
Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over US$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.	
• The non-management directors of each company must meet at regularly scheduled executive sessions without management.	• As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.
AUDIT COMMITTEE	
• Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.	• Our audit committee meets the requirements of Rule 10A-3 under the Exchange Act.
• The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.	• Our audit committee currently consists of three members, all of whom meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.
• The audit committee must have a written charter that addresses the committee's purpose and responsibilities.	• Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of US companies.

CORPORATE GOVERNANCE

At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.	• Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US companies.
The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.	• Our audit committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
• Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.	• The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.
• Each listed company must have an internal audit function.	• We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, review significant audit issues and monitors corrective actions taken by management.
COMPENSATION COMMITTEE	
• Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.	• Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
• The committee must have a written charter that addresses its purpose and responsibilities.	

• These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.	• Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.
NOMINATING/CORPORATE GOVERNANCE COMMITTEE	
• Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.	• We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.
• The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.	
EQUITY-COMPENSATION PLANS	
• Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions.	• We intend to have our shareholders approve equity-compensation plans.
CORPORATE GOVERNANCE GUIDELINES	
• Listed companies must adopt and disclose corporate governance guidelines.	• We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.
CODE OF BUSINESS CONDUCT AND ETHICS	
• All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.	• We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at http://www.cyilimited.com. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

FINANCIAL REPORT

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For the financial year ended December 31, 2016

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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). China Yuchai International Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, China Yuchai International Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss, consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016 of China Yuchai International Limited and our report dated April 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Singapore
April 17, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For the financial year ended December 31, 2016

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Singapore
April 17, 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	31.12.2014 RMB'000	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Sales of goods	7	16,345,885	13,634,395	13,542,568	1,969,828
Rendering of services	7	90,257	99,042	122,272	17,785
Revenue	7	16,436,142	13,733,437	13,664,840	1,987,613
Cost of sales (goods)	8.1	(13,104,609)	(10,893,562)	(10,673,521)	(1,552,512)
Cost of sales (services)	8.1	(40,543)	(49,303)	(27,134)	(3,947)
Gross profit		3,290,990	2,790,572	2,964,185	431,154
Other operating income	8.2(a)	121,901	106,931	114,895	16,713
Other operating expenses	8.2(b)	(27,009)	(87,594)	(19,540)	(2,842)
Research and development costs	8.1	(494,594)	(506,955)	(588,007)	(85,528)
Selling, distribution and administrative costs	8.1	(1,598,670)	(1,497,774)	(1,504,360)	(218,816)
Operating profit		1,292,618	805,180	967,173	140,681
Finance costs	8.3	(156,670)	(116,351)	(79,683)	(11,591)
Share of profit of associates	5	956	245	456	66
Share of losses of joint ventures	6	(30,711)	(2,936)	(4,068)	(592)
Gains arising from acquisitions	4	95,192	—	—	—
Profit before tax		1,201,385	686,138	883,878	128,564
Income tax expense	9	(179,639)	(176,818)	(160,270)	(23,313)
Profit for the year		1,021,746	509,320	723,608	105,251
Attributable to:					
Equity holders of the parent		730,280	341,108	515,737	75,016
Non-controlling interests		291,466	168,212	207,871	30,235
		1,021,746	509,320	723,608	105,251
Earnings per share	10				
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent		19.36	8.81	12.89	1.87
Weighted average number of shares:					
- Basic and diluted		37,720,248	38,712,282	40,016,808	40,016,808

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Profit for the year	1,021,746	509,320	723,608	105,251
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation	11,937	31,533	36,394	5,294
Transfer of reserve on initial equity interest in a joint venture on acquisition	(469)	—	—	—
Realization of foreign currency translation reserves upon liquidation of foreign operation	—	144	—	—
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	11,468	31,677	36,394	5,294
Total comprehensive income for the year, net of tax	1,033,214	540,997	760,002	110,545
Attributable to:				
Equity holders of the parent	741,244	375,646	555,355	80,779
Non-controlling interests	291,970	165,351	204,647	29,766
	1,033,214	540,997	760,002	110,545

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	31.12.2015	31.12.2016	31.12.2016
		RMB'000	RMB'000	US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	11	4,329,544	4,127,185	600,318
Investment property	12	7,437	7,298	1,062
Prepaid operating leases	13	392,455	379,636	55,220
Goodwill	14	212,636	212,636	30,929
Intangible assets	15	81,826	81,826	11,902
Investment in associates	5	3,379	3,836	557
Investment in joint ventures	6	266,784	176,351	25,651
Deferred tax assets	9	341,728	308,207	44,830
Long-term bank deposits	23	60,000	—	—
Other receivables	21	1,519	1,588	231
		5,697,308	5,298,563	770,700
Current assets				
Inventories	18	1,711,330	1,663,879	242,019
Trade and bills receivables	20	7,178,513	7,057,256	1,026,510
Prepayments		35,532	37,654	5,477
Other receivables	21	348,151	348,711	50,722
Prepaid operating leases	13	12,546	12,546	1,825
Other current assets	19	50,099	35,559	5,172
Cash and cash equivalents	23	3,474,364	3,653,914	531,479
Short-term bank deposits	23	7,195	363,043	52,806
Restricted cash	23	300,564	36,000	5,236
Asset classified as held for sale	22	—	89,381	13,001
		13,118,294	13,297,943	1,934,247
Total assets		18,815,602	18,596,506	2,704,947

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	24	1,955,720	2,059,076	299,502
Preference shares	24	21	21	3
Statutory reserves	26	298,221	299,144	43,512
Capital reserves		30,954	30,954	4,502
Retained earnings		5,012,934	5,306,199	771,811
Other components of equity		(58,233)	(11,560)	(1,681)
Equity attributable to equity holders of the parent		7,239,617	7,683,834	1,117,649
Non-controlling interests		2,190,452	2,301,978	334,833
Total equity		9,430,069	9,985,812	1,452,482
Non-current liabilities				
Interest-bearing loans and borrowings	16(b)	56,509	16,270	2,367
Other liabilities	16(a)	55	70	10
Deferred tax liabilities	9	127,419	115,758	16,838
Deferred grants	17	334,328	315,950	45,956
Other payables	28	115,341	136,772	19,894
		633,652	584,820	85,065
Current liabilities				
Trade and other payables	28	6,076,849	6,845,043	995,643
Interest-bearing loans and borrowings	16(b)	2,399,195	894,136	130,056
Other liabilities	16(a)	59	178	26
Provision for taxation		42,201	47,667	6,933
Provision for product warranty	29	233,577	238,850	34,742
		8,751,881	8,025,874	1,167,400
Total liabilities		9,385,533	8,610,694	1,252,465
Total equity and liabilities		18,815,602	18,596,506	2,704,947

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 24)	Performance shares reserve (Note 24)	Other reserve on transaction with non-controlling interests	Premium for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2014	1,724,196	21	300,718	2,932	4,471,075	(106,359)	(85)	—	(925)	6,391,573	2,042,592	8,434,165
Profit for the year	—	—	—	—	730,280	—	—	—	—	730,280	291,466	1,021,746
Other comprehensive income	—	—	—	—	—	10,964	—	—	—	10,964	504	11,468
Total comprehensive income for the year	—	—	—	—	730,280	10,964	—	—	—	741,244	291,970	1,033,214
Shares issued during the year	116,031	—	—	—	—	—	—	—	—	116,031	—	116,031
Transfer to statutory reserves	—	—	2,064	—	(2,064)	—	—	—	—	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(162,331)	(162,331)
Dividends declared and paid (US$1.20 per share)	—	—	—	—	(274,524)	—	—	—	—	(274,524)	—	(274,524)
Cost of share-based compensation	—	—	—	—	—	—	5,348	—	—	5,348	—	5,348
Liquidation of a subsidiary	—	—	(2)	—	—	—	—	—	—	(2)	—	(2)
Acquisition of non-controlling interests	—	—	—	—	—	—	—	8,762	—	8,762	(8,849)	(87)
At December 31, 2014	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 24)	Performance shares reserve (Note 24)	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814
Profit for the year	—	—	—	—	341,108	—	—	—	—	341,108	168,212	509,320
Other comprehensive income	—	—	—	—	—	34,538	—	—	—	34,538	(2,861)	31,677
Total comprehensive income for the year	—	—	—	—	341,108	34,538	—	—	—	375,646	165,351	540,997
Shares issued during the year (Note 24)	115,493	—	—	—	—	—	—	—	—	115,493	—	115,493
Transfer to statutory reserves	—	—	1,332	—	(1,332)	—	—	—	—	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(108,511)	(108,511)
Dividends declared and paid (US$1.10 per share) (Note 25)	—	—	—	—	(257,500)	—	—	—	—	(257,500)	—	(257,500)
Cost of share-based compensation	—	—	—	—	—	—	10,275	—	—	10,275	—	10,275
Disposal of a subsidiary	—	—	(5,891)	—	5,891	—	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	28,022	—	—	—	(8,762)	(11,989)	7,271	(29,770)	(22,499)
At December 31, 2015	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538	—	(12,914)	7,239,617	2,190,452	9,430,069

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 24)	Performance shares reserve (Note 24)	Reserve of asset classified as held for sale (Note 22)	(Premium paid for)/ discount on acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538	—	(12,914)	7,239,617	2,190,452	9,430,069
Profit for the year	—	—	—	—	515,737	—	—	—	—	515,737	207,871	723,608
Other comprehensive income	—	—	—	—	—	39,618	—	—	—	39,618	(3,224)	36,394
Total comprehensive income for the year	—	—	—	—	515,737	39,618	—	—	—	555,355	204,647	760,002
Shares issued during the year (Note 24)	103,356	—	—	—	—	—	—	—	—	103,356	—	103,356
Transfer to statutory reserves	—	—	923	—	(923)	—	—	—	—	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(84,450)	(84,450)
Dividends declared and paid (US$0.85 per share) (Note 25)	—	—	—	—	(221,549)	—	—	—	—	(221,549)	—	(221,549)
Cost of share-based compensation	—	—	—	—	—	—	5,301	—	—	5,301	—	5,301
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	1,754	1,754	(8,671)	(6,917)
Reserve attributable to asset classified as held for sale	—	—	—	—	—	(22,720)	—	22,720	—	—	—	—
At December 31, 2016	2,059,076	21	299,144	30,954	5,306,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812
US$'000	299,502	3	43,512	4,502	771,811	(6,394)	3,031	3,305	(1,623)	1,117,649	334,833	1,452,482

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Operating activities				
Profit before tax	1,201,385	686,138	883,878	128,564
Adjustments to reconcile profit before tax to net cash flows:				
(Written back)/impairment of doubtful debts (net)	(1,595)	32,938	3,696	538
Inventories written down	21,297	59,339	48,202	7,011
Reversal of write-down of inventories	(24,694)	(24,079)	(53,373)	(7,763)
Depreciation of property, plant and equipment	418,675	456,002	465,093	67,650
Depreciation of investment property	—	—	248	36
Amortization of prepaid operating leases	12,581	13,433	12,819	1,864
Dividend income from held for trading investment	(989)	—	(943)	(137)
Impairment of property, plant and equipment	10,433	2,873	3,297	480
Write-off of property, plant and equipment	15	4,931	5	1
Impairment of intangible asset	60,000	26,700	1,131	165
Share of net loss of associates and joint ventures	29,755	2,691	3,612	526
Exchange loss/(gain)	13,044	45,354	(3,407)	(496)
Fair value loss/(gain) on foreign exchange forward contract	2,731	(15,506)	140	20
Loss on disposal of property, plant and equipment	5,984	14,874	14,020	2,039
Gain on disposal of prepaid operating leases	(194)	(2,511)	—	—
Loss on disposal of subsidiary	—	13,647	—	—
Gain on liquidation of joint venture	—	(348)	—	—
Finance costs	156,670	116,351	79,683	11,591
Interest income	(45,824)	(41,314)	(56,983)	(8,288)
Fair value loss on held for trading investment	5,250	10,871	243	35
Cost of share-based payments	5,360	10,275	5,301	771
Gains arising from acquisitions	(95,192)	—	—	—
Write-off of trade and other payables	(42,437)	(9)	—	—
Loss on dilution of equity interest in joint venture	—	2,848	—	—
Written back of impairment loss on development properties	—	(2,976)	—	—
Total adjustments	1,732,255	1,412,522	1,406,662	204,607

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Changes in working capital				
Decrease in inventories	433,630	168,176	55,299	8,043
(Increase)/decrease in trade and other receivables	(85,712)	732,413	116,487	16,944
(Decrease)/increase in trade and other payables	(1,140,069)	(495,825)	774,134	112,601
(Increase)/decrease in balances with related parties	(137,956)	5,206	56,526	8,222
Decrease in development properties	828	—	—	—
Cash flows from operating activities	802,976	1,822,492	2,409,108	350,417
Income taxes paid	(267,290)	(135,774)	(133,021)	(19,349)
Net cash flows from operating activities	535,686	1,686,718	2,276,087	331,068
Investing activities				
Acquisition of subsidiaries	(16,690)	—	—	—
Additional investment in subsidiaries	(87)	(22,499)	(9,076)	(1,320)
Acquisition/additional investment in associates and joint ventures	(462)	(2,591)	(1,255)	(183)
Dividend received from held for trading investment	989	—	943	137
Dividends received from joint ventures	258	1,190	598	87
Interest received	50,081	46,402	56,734	8,252
Net cash inflow on liquidation of a joint venture	—	1,763	—	—
Payment for prepaid operating leases	(8,300)	—	—	—
Proceeds from disposal of prepaid operating leases	2,518	4,505	—	—
Additions of intangible asset	(21,515)	—	—	—
Proceeds from disposal of property, plant and equipment	16,113	6,602	667	97
Purchase of property, plant and equipment	(660,930)	(397,817)	(351,472)	(51,123)
Proceeds from disposal of subsidiary, net of cash disposed	—	170,703	—	—
Proceeds from government grants	14,562	39,558	13,639	1,983
Placement of fixed deposits with banks	(97,069)	(66,901)	(290,169)	(42,206)
Withdrawal of fixed deposits from banks	197,513	193,589	7,360	1,071
Net cash flows used in investing activities	(523,019)	(25,496)	(572,031)	(83,205)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Financing activities				
Dividends paid to non-controlling interests	(156,908)	(94,899)	(87,975)	(12,796)
Dividends paid to equity holders of the parent	(158,493)	(142,007)	(118,193)	(17,192)
Interest paid and discounting on bills receivable	(153,617)	(108,279)	(110,774)	(16,113)
Payment of finance lease liabilities	(71)	(85)	(61)	(9)
Proceeds from borrowings	1,924,613	2,534,384	1,255,659	182,641
Repayment of borrowings	(1,939,054)	(2,772,862)	(2,793,206)	(406,285)
Proceeds from issue of bonds	—	398,777	—	—
Placement of fixed deposits pledged with banks for banking facilities	—	(300,564)	—	—
Withdrawal of fixed deposits pledged with banks for banking facilities	168,781	—	300,564	43,718
Net cash flows used in financing activities	(314,749)	(485,535)	(1,553,986)	(226,036)
Net (decrease)/increase in cash and cash equivalents	(302,082)	1,175,687	150,070	21,827
Cash and cash equivalents at January 1	2,596,536	2,291,345	3,474,364	505,362
Effect of exchange rate changes on balances in foreign currencies	(3,109)	7,332	29,480	4,290
Cash and cash equivalents at December 31	2,291,345	3,474,364	3,653,914	531,479

Significant non-cash investing and financing transactions

For the years ended December 31, 2014, 2015 and 2016, certain customers settled their debts with trade bills amounting to RMB 14,117 million, RMB 12,032 million and RMB 12,203 million (US$1,775 million) respectively. These outstanding trade bills were classified as bills receivables in the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the directors on April 17, 2017. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office of the Company is at 2 Clarendon House, Church Street, Hamilton HM11, Bermuda. On March 7, 2008, the Company registered a branch office in Singapore, located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581. The principal operating office is located at 16 Raffles Quay #39-01A, Hong Leong Building, Singapore 048581.

1.2 Investment in Guangxi Yuchai Machinery Company Limited

The Company was incorporated under the laws of Bermuda on April 29, 1993. The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited, 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 and bus manufacturers in the PRC.

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

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

Yuchai established three direct subsidiaries, Guangxi Yuchai Machinery Monopoly Development Co., Ltd. ("YMMC"), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ("YAMC") and Yuchai Express Guarantee Co. Ltd ("YEGCL"). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants' purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As YEGCL is a non-core business of the Group, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL to one of the subsidiaries of State Holding Company for a consideration of RMB 85.8 million, and resulted in a loss of RMB 10.9 million. In October 2015, Yuchai acquired 2.86% of equity interest in YAMC from State Holding Company with a purchase consideration of RMB 4.2 million. As at December 31, 2016, Yuchai held an equity interest of 71.83% and 100% respectively in YMMC and YAMC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

In July 2015, YMMC acquired 40.00% of equity interest in Yunnan Yuchai Machinery Industry Company Limited ("YMMC Yunnan") by way of offsetting trade receivables from the third party of RMB 18.3 million. In September 2016, YMMC acquired 47.53% of equity interest in Sichuan Yuchai Machinery Industry Company Limited ("YMMC Sichuan") from non-controlling interest for a cash consideration of RMB 8.9 million. As at December 31, 2015 and 2016, YMMC had direct controlling interests in 30 subsidiaries which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC.

In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd ("Xiamen Yuchai"). This subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, Fujian province in the PRC. In September 2015, Yuchai disposed of Xiamen Yuchai to consolidate operations back to Yulin City. See Note 4 for transaction details.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

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

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

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

(i) Loan Agreement

Under the terms of the Loan Agreement entered into between the Purchaser and Jining Yuchai with Yuchai and its wholly-owned subsidiary, Guangxi Yulin Hotel Company Limited ("Lenders"), the Lenders agreed to extend loans with tenure of two years, of amounts not exceeding RMB 70 million, to Jining Yuchai, by way of entrusted loans, and such loans are solely to be utilized for Jining Yuchai's working capital purpose. In 2016, lenders further extend the loans to Jining Yuchai and provide financial support to its operation.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

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

(ii) Management Agreement

In 2014, under the Management Agreement entered into between Yuchai and the Purchaser, Yuchai has been appointed by the Purchaser to manage Jining Yuchai in all matters relating to the running of its operations and management of its assets. The term of the agreement is for one year which may be extended upon mutual agreement and the management fee is RMB 240 per annum. In October 2015 and 2016, the management agreement has been renewed and extended for one more year.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

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

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

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

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

1.3 Investment in Thakral Corporation Ltd.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

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

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

On April 1, 2015, TCL proposed to undertake a share consolidation exercise to consolidate every 20 ordinary shares in the capital of TCL into 1 ordinary share. The share consolidation exercise was completed on May 11, 2015. Upon completion of the share consolidation exercise, the Group held 10,122,667 ordinary shares of TCL. As of December 31, 2015 and 2016, the Group's shareholding interests in TCL remained at 7.7%.

1.4 Investment in HL Global Enterprises Limited

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information (cont'd)

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

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

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

On April 4, 2012, the Group converted 13,957,233 of Series A redeemable convertible preference shares ("Series A RCPS") into ordinary shares in the capital of HLGE. As of December 31, 2012, the Group's interest in HLGE increased from 49.4% to 50.1%, based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust.

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

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

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

As of December 31, 2015 and 2016, the Group's shareholding interest in HLGE remains at 50.2%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group") as at December 31, 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.2 Basis of consolidation (cont'd)

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

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

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

(b) Investments in associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share of profit of associates" and "Share of losses of joint ventures" in the statement of profit or loss.

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

(c) Current versus non-current classification

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

(d) Fair value measurement

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

- Quoted equity shares Note 35
- Foreign exchange forward contract Note 35

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

(e) Foreign currency translation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Transactions and balances

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

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

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

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

Group companies

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

For the US Dollar convenience translation amounts included in the accompanying consolidated financial statements, the RMB equivalent amounts have been translated into US Dollar at the rate of RMB 6.8750 = US$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on February 28, 2017. No representation is made that the RMB amounts could have been, or could be, converted into US Dollar at that rate or at any other rate prevailing on February 28, 2017 or any other date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue recognition

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

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

Sale of goods

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

Rendering of services

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

Interest income

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

Rental income

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

Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(g) Government grants

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

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Sales tax

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

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

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

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

(i) Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification 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. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

(k) Property, plant and equipment

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

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

Freehold buildings	:	50 years
Leasehold 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 15 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

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

(l) Investment properties

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

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

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(m) Research and development costs

Research costs are expensed as incurred. The Group received research and development subsidies of RMB 37,301 and RMB 26,815 (US$3,900) for the years ended December 31, 2015 and 2016 respectively.

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized over the period of expected future benefit, and is recorded in cost of sales. During the period of development, the asset is tested for impairment annually. As of December 31, 2014, 2015 and 2016, capitalized development expenditures are not amortized because the intangible asset has not been completed and is not available for use or sale.

(n) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Initial recognition and measurement (cont'd)

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

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

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

Loans and receivables

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

The EIR amortization is included in "Other operating income" in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss as finance costs. The Group did not have any held-to-maturity investments as of December 31, 2015 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

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

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

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

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

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

The Group does not have AFS financial assets in 2015 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Derecognition

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

- The rights to receive cash flows from the asset have expired, or

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

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

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Impairment of financial assets (cont'd)

Financial assets carried at amortized cost

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

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

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

AFS financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(n) Financial assets (cont'd)

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

Impairment of financial assets (cont'd)

AFS financial assets (cont'd)

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

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

(o) Derivative financial instruments

Initial recognition and subsequent measurement

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

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

The Group does not apply hedge accounting.

(p) Inventories

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(q) Impairment of non-financial assets

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

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

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

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

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

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

(r) Cash and cash equivalents

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(s) Leases

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

Prepaid operating lease

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

Group as a lessee

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

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

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(t) Borrowing costs

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

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

(u) Provisions

General

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

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

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 12 to 36 months) or mileage (generally 50,000 to 300,000 kilometers), whichever is the lower. For other applications engines, warranties extend for a duration of generally 12 to 24 months. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. 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)

2.3 Summary of significant accounting policies (cont'd)

(v) Pensions and other post-employment benefits

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

(w) Share-based payments

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

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized in "staff cost" (Note 8.4), together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.3 Summary of significant accounting policies (cont'd)

(x) Development properties

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

Development properties are held as inventories and are measured at the lower of cost and net realisable value.

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

Costs to complete development include cost of land and other direct and related development expenditure, including borrowing costs incurred in developing the properties. Net realisable value of development properties is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

(y) Segment reporting

For management purposes, the Group is organized into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 32, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.4 Changes in accounting policy and disclosures

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

New and amended standards and interpretations (cont'd)

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

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

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

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

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Amendments to IAS 1 *Disclosure Initiative*

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

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

New and amended standards and interpretations (cont'd)

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

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

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

New and amended standards and interpretations (cont'd)

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

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

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

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

IFRS 7 *Financial Instruments: Disclosures*

(i) Servicing contracts

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

New and amended standards and interpretations (cont'd)

Annual Improvements 2012-2014 Cycle (cont'd)

IAS 19 *Employee Benefits*

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

IAS 34 *Interim Financial Reporting*

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

These amendments do not have any impact on the Group.

2.5 Standards issued but not yet effective

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

IFRS 9 *Financial Instruments*

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

The Group does not apply hedge accounting. During 2016, the Group performed a preliminary assessment of IFRS 9 which is subject to changes arising from a more detailed ongoing analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

IFRS 9 *Financial Instruments* (cont'd)

The Group's initial assessment of the elements of IFRS 9 is as described below:

(a) Classification and measurement

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under IFRS 9.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under IFRS 9.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under IFRS 9. Equity securities that are currently classified as held for trading will continue to be measured at fair value through profit or loss.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group expects an increase in the impairment loss allowance due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

Transition

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

IFRS 15 *Revenue from Contracts with Customers*

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

IFRS 15 *Revenue from Contracts with Customers* (cont'd)

During 2016, the Group performed a preliminary assessment of IFRS 15 which is subject to changes arising from a more detailed ongoing analysis. The Group's major businesses are manufacturing, assembling, and selling of diesel engines and related products.

The Group expects the following impact upon adoption of IFRS 15:

(a) Variable consideration

Contracts with customers provide trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception. IFRS 15 requires the estimated variable consideration to be constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur to prevent over-recognition of revenue. The Group continues to assess individual contract to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(b) Warranty obligations

The Group provides warranties for both general repairs and maintenance services in its contracts with customers. For general repairs, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current practice. For maintenance services, the Group expects that such warranties will be service-type warranties. IFRS 15 requires the Group to defer an allocated amount, based on a relative stand-alone selling price allocation, which, in most cases, will increase judgement and complexity. The Group continues to assess individual warranty contracts to determine the allocated amount to be deferred. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(c) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increase the details of disclosures required in the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

IFRS 15 *Revenue from Contracts with Customers* (cont'd)

Transition

The following practical expedients are available when applying IFRS 15 retrospectively.

- For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.

- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and

- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

    - identifying the satisfied and unsatisfied performance obligations;

    - determining the transaction price; and

    - allocating the transaction price to the satisfied and unsatisfied performance obligations.

- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Group plans to adopt the new standard on the required effective date using the full retrospective method and apply all the practical expedients available for full retrospective approach under IFRS 15 as listed above. The Group is currently performing a detailed analysis under IFRS 15 to determine its election of the practical expedients and to quantify the transition adjustments on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group does not intend to early adopt the amendments. The Group will perform assessment on the impact once the IASB has decided the effective date of these amendments.

IAS *7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have material impact to 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)

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

IFRS 2 *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

The Group's Equity Incentive Plan is considered an equity-settled share-based payment transactions, all the share options outstanding as at December 31, 2016 will vest in July 2017. The Group does not plan to elect for retrospective application and does not expect the amendments to have any material impact to the Group.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC *4 Determining whether an Arrangement contains a* Lease, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

IFRS 16 *Leases* (cont'd)

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

Applying IFRS 9 *Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4*

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts:

(i) Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 permits entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard – IAS 39.

(ii) The overlay approach

The overlay approach permits all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

This amendment is not relevant to the Group as the Group is not an issuer of insurance contract.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Transfers of Investment Property (Amendments to IAS 40) (cont'd)

The amendments are effective for annual periods beginning on or after January 1, 2018.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

The Group does not plan to early adopt the amendments and does not expect the amendments to have material impact to the Group.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early application of interpretation is permitted and must be disclosed.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation, or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Group does not expect the application of IFRIC 22 to have material impact to 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)

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

Annual improvements 2014-2016 cycle

AIP IAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment – by – investment choice*

The amendments clarify that:

(i) An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

(ii) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from January 1, 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

The amendments are not expected to have any impact to the Group as the Group does not plan to measure its investments in associates and joint ventures at fair value through profit or loss.

AIP IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments are effective from January 1, 2017 and must be applied retrospectively.

These amendments are not expected to have material impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. Significant accounting judgments, estimates and assumptions

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

3.1 Judgments

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

Operating lease commitments – Group as lessor

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

Cash and cash equivalents

The Group's cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. To determine whether a fixed deposit meets the definition of cash and cash equivalents, the Group considers factors such as its intention to hold the fixed deposit to meet short-term cash requirements and maturity and terms of such deposit. The carrying amount of cash and cash equivalents as at December 31, 2015 and 2016 are disclosed in Note 23.

Consolidation of a structured entity

As discussed in Note 1.2(a) above, on July 1, 2014, pursuant to the Equity Transfer Agreement entered into between Yuchai and an independent third party (the "Purchaser"), Yuchai disposed of its equity interest in Jining Yuchai amounting to RMB 105 million (representing 70% of Jining Yuchai's total share capital), for a consideration of RMB 1.00 dollar. Geely also entered into an agreement to dispose of their entire stake in Jining Yuchai to the Purchaser on June 18, 2014. In connection with the equity transfer transaction, Yuchai and the Purchaser entered into a Management Agreement on October 13, 2014. In accordance with the terms of the Management Agreement, the Purchaser appoints Yuchai to direct Jining Yuchai's operating activities, manage Jining Yuchai's assets and employees, and the Purchaser, in return, will pay Yuchai RMB 240 per annum for the management services rendered. On the same day, Yuchai, Yulin Hotel, the Purchaser and Jining Yuchai also entered into a Loan Agreement. In this Loan Agreement, Yuchai and Yulin Hotel agreed to extend a loan facility of RMB 70 million to Jining for tenure of two years from the date of the agreement, solely for Jining's daily operation purpose. In addition, Yuchai has the right to appoint the sole director and legal representative of Jining Yuchai. In 2016, Yuchai and Yulin Hotel agreed to further extend the loan facility to Jining Yuchai.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

3.1 Judgments (cont'd)

Consolidation of a structured entity (cont'd)

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

Derecognition of bills receivable

The Group sell bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the transfer of risks and rewards of the bills receivable when discounted, the management believes that the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 20.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2015 and 2016 are RMB 341,728 and RMB 308,207 (US$44,830) respectively. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 189,589 (US$27,577) for year ended December 31, 2016 (2015: RMB 199,511).

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the forecasts for the next eight to fifteen years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 6, Note 14 and Note 15.

Allowance for doubtful accounts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2015 and 2016 were RMB 55,950 and RMB 54,634 (US$7,947) respectively.

Inventory provision

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2015 and 2016 were RMB 132,306 and RMB 126,796 (US$18,443) respectively.

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(u). 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, 2015 and 2016 were RMB 233,577 and RMB 238,850 (US$34,742) 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 recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of provision for withholding tax payable as of December 31, 2015 and 2016 are RMB 113,805 and RMB 103,347 (US$15,032) 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.

4. Investments in subsidiaries

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2015	31.12.2016
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited (i)	People's Republic of China	—	—
Yuchai Remanufacturing Services (Suzhou) Co., Ltd. ("Yuchai Remanufacturing")	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	20.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Note:

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

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

	31.12.2014	31.12.2015	31.12.2016
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated balances of material NCI				
Yuchai		2,005,334	2,100,909	305,587
Profit allocated to material NCI				
Yuchai	248,789	129,088	171,353	24,924
Dividends paid to material NCI				
Yuchai	105,991	100,412	83,677	12,171

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

	31.12.2014
	Yuchai
	RMB'000
Summarized statement of comprehensive income	
Revenue	16,387,356
Profit for the year, representing total comprehensive income for the year	1,054,637
Attributable to NCI	248,789
Summarized statement of cash flows	
Operating	600,451
Investing	(603,771)
Financing	(480,896)
Net decrease in cash and cash equivalents	(484,216)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

	31.12.2015
	Yuchai
	RMB'000
Summarized statement of financial position	
Current assets	12,510,033
Non-current assets, excluding goodwill	5,174,416
Goodwill	212,636
Current liabilities	(8,717,191)
Non-current liabilities	(466,478)
Net assets	8,713,416
Total equity	8,713,416
Attributable to NCI	2,005,334
Summarized statement of comprehensive income	
Revenue	13,671,931
Profit for the year, representing total comprehensive income for the year	547,216
Attributable to NCI	129,088
Summarized statement of cash flows	
Operating	1,742,989
Investing	(33,515)
Financing	(659,691)
Net increase in cash and cash equivalents	1,049,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

	31.12.2016	
	Yuchai	
	RMB'000	US$'000
Summarized statement of financial position		
Current assets	12,448,174	1,810,644
Non-current assets, excluding goodwill	4,876,773	709,349
Goodwill	212,636	30,929
Current liabilities	(7,957,306)	(1,157,426)
Non-current liabilities	(461,712)	(67,158)
Net assets	9,118,565	1,326,338
Total equity	9,118,565	1,326,338
Attributable to NCI	2,100,909	305,587
Summarized statement of comprehensive income		
Revenue	13,598,487	1,977,962
Profit for the year, representing total comprehensive income for the year	726,379	105,655
Attributable to NCI	171,353	24,924
Summarized statement of cash flows		
Operating	2,329,367	338,817
Investing	(293,477)	(42,688)
Financing	(1,697,173)	(246,862)
Net increase in cash and cash equivalents	338,717	49,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Significant restrictions

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

Cash and cash equivalents of RMB 3,270,182 (US$475,663) (2015: RMB 2,928,741) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

Acquisition of subsidiaries in 2014

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries in 2014 (cont'd)

Assets acquired and liabilities assumed

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

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

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

* Cash consideration is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries in 2014 (cont'd)

Assets acquired and liabilities assumed (cont'd)

Trade and other receivables acquired

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(RMB and US$ amounts expressed in thousands, except per share data)

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiaries in 2014 (cont'd)

Assets acquired and liabilities assumed (cont'd)

Gain on deemed settlement of pre-existing contractual relationship

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

Gains arising from acquisition of subsidiaries are summarized as follows:

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

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

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

Impact of the acquisition on profit or loss

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Disposal of a subsidiary in 2015

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

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

	31.12.2015
	RMB'000
Property, plant and equipment (Note 11)	66,597
Land use rights (Note 13)	17,661
Inventories	6,354
Trade receivables	110,681
Other receivables, deposits and prepayments	970
Deferred taxation	244
Cash and bank balances	18,797
	221,304
Payables and accruals	(17,161)
Provision for taxation	(996)
Carrying value of net assets	203,147
Loss on disposal of a subsidiary (Note 8.2(b))	(13,647)
Total consideration	189,500
Cash and cash equivalents of the subsidiary	(18,797)
Net cash inflow on disposal of the subsidiary	170,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments in subsidiaries (cont'd)

Acquisition of subsidiary in 2016

On December 20, 2016, Yuchai acquired an additional 32.5% equity interest in its 35% owned joint venture, YC Europe Co., Limited ("YC Europe") through share allotment transfer and the injection of share capital will be completed in phases. Upon the full injection of capital, Yuchai's equity interest in YC Europe will increase from 35% to 67.5%.

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of YC Europe's net identifiable assets. There was no gain or loss on remeasuring previously held equity interest in YC Europe to fair value at the acquisition date.

YC Europe was newly incorporated in April 2015 to market off-road engines (excluding marine engines) in Europe. As at December 31, 2016, YC Europe is a subsidiary of the Group. The contribution from the acquisition to the Group's financial performance for the year ended December 31, 2016, and net assets as at December 31, 2016 is not material.

Goodwill arising from the acquisition of RMB 1,131 (US$165) was fully written off and recognized in the "other operating expenses" line item in the Group's profit or loss for the year ended December 31, 2016.

5. Investment in associates

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Unquoted equity shares, at cost	4,642	4,642	675
Share of post-acquisition reserves			
At January 1	(1,467)	(1,263)	(184)
Share of results, net of tax	245	456	66
Share of foreign currency translation	(41)	1	—
At December 31	(1,263)	(806)	(118)
Carrying amount of the investment	3,379	3,836	557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. 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	
			31.12.2015	31.12.2016
			%	%
Held by subsidiaries				
Sinjori Sdn. Bhd. (i)	Property investment and development	Malaysia	14.0	14.0
Guangxi Yuchai Quan Xing Machinery Co., Ltd. ("Quan Xing") (ii)	Manufacture spare part and sales of auto spare part, diesel engine & spare part, metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	People's Republic of China	15.3	15.3
Guangxi Yulin Yuchai Property Management Co., Ltd. ("Property Management") (iii)	Property management	People's Republic of China	22.9	22.9

Note:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. Investment in associates (cont'd)

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

	31.12.2014		
	Quan Xing	Property Management	Total
	RMB'000	RMB'000	RMB'000
Revenue	63,113	35,976	99,089
Profit for the year, representing total comprehensive income for the year	442	2,908	3,350
Group's share of profit of significant associate	88	872	960
Group's share of loss of other associates, representing the Group's share of total comprehensive income of other associates			(4)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			956

	31.12.2015		
	Quan Xing	Property Management	Total
	RMB'000	RMB'000	RMB'000
Current assets	30,219	12,635	42,854
Non-current assets	294	1,648	1,942
Current liabilities	(22,973)	(9,003)	(31,976)
Equity	7,540	5,280	12,820
Proportion of the Group's ownership	20%	30%	
Carrying amount of significant associate	1,508	1,584	3,092
Carrying amount of other associates			287
Carrying amount of investment in associates			3,379
Revenue	55,305	34,581	89,886
Profit for the year, representing total comprehensive income for the year	368	587	955
Group's share of profit of significant associate	74	176	250
Group's share of loss of other associates, representing the Group's share of total comprehensive income of other associates			(5)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. Investment in associates (cont'd)

	31.12.2016			
	Quan Xing	Property Management	Total	Total
	RMB'000	RMB'000	RMB'000	US$'000
Current assets	31,623	13,340	44,963	6,540
Non-current assets	251	1,646	1,897	276
Current liabilities	(22,413)	(9,449)	(31,862)	(4,634)
Equity	9,461	5,537	14,998	2,182
Proportion of the Group's ownership	20%	30%		
Carrying amount of significant associates	1,892	1,661	3,553	517
Carrying amount of other associates			283	40
Carrying amount of investment in associates			3,836	557
Revenue	53,582	31,379	84,961	12,358
Profit for the year, representing total comprehensive income for the year	1,919	255	2,174	316
Group's share of profit of significant associates	384	77	461	67
Group's share of loss of other associates, representing the Group's share of total comprehensive income of other associates			(5)	(1)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			456	66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Unquoted equity shares, at cost			
At January 1	451,758	452,797	65,861
Addition	2,591	1,255	183
Acquisition as subsidiaries	—	(2,436)	(354)
Reclassified to asset held for sale (ii)	—	(217,473)	(31,632)
Dissolved	(1,552)	—	—
At December 31	452,797	234,143	34,058
Share of post-acquisition reserves and impairment losses			
At January 1	(179,542)	(186,013)	(27,056)
Share of results, net of tax (i)	(2,936)	(4,068)	(592)
Dividend received	(1,190)	(598)	(87)
Others	698	3,302	480
Translation adjustment	(195)	(80)	(12)
Acquisition as subsidiaries	—	1,573	229
Reclassified to asset held for sale (ii)	—	128,092	18,631
Losses in dilution in shareholding interest	(2,848)	—	—
At December 31	(186,013)	(57,792)	(8,407)
Carrying amount of the investment	266,784	176,351	25,651

Note:

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Share of joint venture losses	(27,907)	(22,064)	(3,601)	(524)
Reversal of impairment of investment in joint ventures	—	21,932	—	—
Fair value adjustments arising from purchase price allocation	(2,804)	(2,804)	(467)	(68)
Share of results, net of tax	(30,711)	(2,936)	(4,068)	(592)

(ii) Since February 23, 2016, the investment in Copthorne Hotel Qingdao Co., Ltd has been reclassified as asset held for sale in view of proposed disposal. Refer to Note 22 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Percentage of interest held	
			31.12.2015	31.12.2016
			%	%
Held by subsidiaries				
Copthorne Hotel Qingdao Co., Ltd. ("Copthorne Qingdao")	Owns and operates a hotel in Qingdao, PRC	People's Republic of China	60	60
HL Heritage Sdn. Bhd. ("HL Heritage")	Property development and property investment holdings	Malaysia	60	60
Shanghai Hengshan Equatorial Hotel Management Co., Ltd. ("SHEHM")	Hotel and property management	People's Republic of China	49	49
Y & C Engine Co., Ltd.	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	45	45
Guangxi Yineng IOT Science & Technology Co., Ltd. ("Guangxi Yineng")	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	20	20
YC Europe Co., Limited. ("YC Europe")[(i)]	Sales and after-sales service for diesel engines, gas engines and related components and parts	Hong Kong	35	—

Note:

(i) On December 20, 2016, Yuchai had acquired an additional 32.5% equity interest in YC Europe through share allotment transfer. As a result, YC Europe became a subsidiary of the Group. For details, please refer to Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

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

In 2014, the Group performed impairment evaluation of its investments and no impairment was required. In the same year, the Group acquired the remaining 49% equity interest in Yuchai Remanufacturing and it became a wholly-owned subsidiary of the Group. Purchase price allocation exercise was performed based on third party valuation and the assets and liabilities of Yuchai Remanufacturing were stated based on its fair value on acquisition date.

In 2015, the Group performed impairment evaluation of its investments in joint ventures. As a result, the Group reversed the earlier impairment of RMB 21.9 million for Copthorne Qingdao. The reversal was made because the fair value less cost of disposal estimated in the latest independent valuation report is higher than the carrying amount and the management had obtained the consent from its joint venture partner to sell the joint venture. The Group estimates the recoverable amounts of investment in Copthorne Qingdao based on its fair value less cost of disposal. The fair value is determined using recognized valuation technique, which is discounted cash flow method. The calculations require the use of key significant unobservable inputs (fair value level 3), which are occupancy rates, room rates, discount rates and gross margins of operating hotel. With regards to the valuation of the recoverable amount of Copthorne Qingdao, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the joint venture to materially exceed its recoverable amount.

In 2016, the Group performed impairment evaluation of its investments in joint ventures, no impairment was required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

	31.12.2015		
	Y & C	**Copthorne Qingdao**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Non-current assets	638,726	312,885	951,611
Current assets			
- Cash and bank balances	51,634	9,085	60,719
- Others	112,340	2,851	115,191
Total assets	802,700	324,821	1,127,521
Non-current liabilities			
- Interest-bearing loans and borrowings	(40,000)	—	(40,000)
- Others	(19,102)	—	(19,102)
Current liabilities			
- Interest-bearing loans and borrowings	(30,000)	(145,181)	(175,181)
- Others	(343,209)	(23,208)	(366,417)
Total liabilities	(432,311)	(168,389)	(600,700)
Equity	370,389	156,432	526,821
Proportion of the Group's ownership	45%	60%	
Group's share of net assets	166,675	93,859	
Cumulative impairment loss	—	(21,932)	
Reversal of cumulative impairment loss	—	21,932	
Unrealized profit on transactions between the Group and the joint venture	698	—	
Carrying amount of significant joint ventures	167,373	93,859	261,232
Carrying amount of other joint ventures			5,552
Carrying amount of the investment in joint ventures			266,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

	31.12.2016		
	Y & C	Total	Total
	RMB'000	RMB'000	US$'000
Non-current assets	616,397	616,397	89,658
Current assets			
- Cash and bank balances	99,014	99,014	14,402
- Others	215,246	215,246	31,308
Total assets	930,657	930,657	135,368
Non-current liabilities	(60,382)	(60,382)	(8,783)
Current liabilities			
- Interest-bearing loans and borrowings	(68,800)	(68,800)	(10,007)
- Others	(425,777)	(425,777)	(61,931)
Total liabilities	(554,959)	(554,959)	(80,721)
Equity	375,698	375,698	54,647
Proportion of the Group's ownership	45%		
Group's share of net assets	169,064		
Carrying amount of significant joint ventures	169,064	169,064	24,591
Carrying amount of other joint ventures		7,287	1,060
Carrying amount of the investment in joint ventures		176,351	25,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

	31.12.2016			
	Y & C	**Copthorne Qingdao***	**Total**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
Revenue	553,878	3,674	557,552	81,098
Depreciation and amortization	(22,087)	(2,797)	(24,884)	(3,619)
Interest expense	(14,012)	(1,337)	(15,349)	(2,233)
Profit/(loss) for the year, representing total comprehensive loss for the year	4,531	(6,664)	(2,133)	(310)
Proportion of the Group's ownership	45%	60%		
Group's share of profit/(loss)	2,039	(3,998)		
Depreciation arising from fair value adjustment during purchase price allocation	—	(467)		
Group's share of profit/(loss) of significant joint ventures	2,039	(4,465)	(2,426)	(353)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			(1,642)	(239)
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year			(4,068)	(592)

* On February 23, 2016, the investment in Copthorne Qingdao was reclassified as asset held for sale. Accordingly, the information presented includes the results of Copthorne Qingdao only for the period from January 1, 2016 to February 23, 2016.

Note:

As of December 31, 2016, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 10,982 (US$1,597) (2015: RMB 37,973).

As of December 31, 2016, the Group's share of joint ventures' contingent liabilities was RMB 19,402 (US$2,822) (2015: RMB 112,072) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Investment in joint ventures (cont'd)

According to Qingdao Municipal Government's regulation, all hotels in Qingdao, the People's Republic of China, are required to pay tourism development levy and hotel augmentation levy which are equivalent to 1% of total revenue and 3% of room revenue respectively. According to releases made by the Qingdao Local Taxation Bureau, the tourism development levy and the hotel augmentation levy were withdrawn effective from January 1, 2009 and September 1, 2010 respectively. As at December 31, 2016, the estimated tourism development levy and hotel augmentation levy payable by the Group's joint venture in Qingdao were RMB 3,754 (US$546) (2015: RMB 3,793) and RMB 9,095 (US$1,323) (2015: RMB 9,197) respectively. The joint venture, together with other hotel owners in Qingdao is currently negotiating with the Qingdao Municipal Government to waive such levies. The joint venture is of the view that the authority is unlikely to collect such levies. Hence, the above levies have not been provided in the accounts of the joint venture.

As of December 31, 2016, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totalled RMB 1,440 (US$209) (2015: RMB 94,188).

As of December 31, 2016, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 5,113 (US$744) (2015: RMB 4,894).

Significant restrictions

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

The Group's share of cash and cash equivalents of RMB 26,437 (US$3,845) (2015: RMB 8,464) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

7. Revenue

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Sale of goods	16,345,885	13,634,395	13,542,568	1,969,828
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	78,815	94,053	110,718	16,104
Revenue from sale of development properties	865	—	—	—
Rental income	10,577	4,989	11,554	1,681
	90,257	99,042	122,272	17,785
Revenue	16,436,142	13,733,437	13,664,840	1,987,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8.1 Depreciation and amortization, shipping and handling expenses

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Cost of sales	299,789	319,962	322,289	46,878
Research and development expenses	47,169	58,204	56,812	8,264
Selling, general and administrative expenses	84,298	91,269	99,059	14,409
	431,256	469,435	478,160	69,551

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Selling, general and administrative expenses	208,439	172,865	159,023	23,131

8.2 (a) Other operating income

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Interest income	45,824	41,314	56,983	8,288
Dividend income from held for trading investment	989	—	943	137
Gain on disposal of prepaid operating leases	194	2,511	—	—
Gain on liquidation of joint venture	—	348	—	—
Government grants	26,151	31,205	41,515	6,039
Fair value gain on foreign exchange forward contract (Note 19)	—	15,506	—	—
Write-off of trade and other payables	42,437	9	—	—
Written back of impairment loss on development properties	—	2,976	—	—
Bad debt recovered	—	4,257	—	—
Others, net	6,306	8,805	15,454	2,249
	121,901	106,931	114,895	16,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8.2 (b) Other operating expenses

	31.12.2014 RMB'000	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Loss on disposal of property, plant and equipment	5,984	14,874	14,020	2,039
Loss on disposal of subsidiary	—	13,647	—	—
Loss on dilution of equity interest in joint venture	—	2,848	—	—
Foreign exchange loss, net	13,044	45,354	4,006	583
Fair value loss on held for trading investment	5,250	10,871	243	35
Fair value loss on foreign exchange forward contract	2,731	—	140	20
Goodwill written off	—	—	1,131	165
	27,009	87,594	19,540	2,842

8.3 Finance costs

	31.12.2014 RMB'000	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Bank term loans	66,168	57,212	34,477	5,015
Corporate bonds	49,452	54,116	27,581	4,012
Bills discounting	36,011	1,651	13,068	1,901
Bank charges	5,029	3,364	4,552	662
Finance lease	10	8	5	1
	156,670	116,351	79,683	11,591

8.4 Staff costs

	31.12.2014 RMB'000	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Wages and salaries	836,578	839,288	922,847	134,232
Contribution to defined contribution plans	279,123	297,926	275,703	40,102
Executive bonuses	60,069	32,190	44,921	6,534
Staff welfare	84,123	82,293	94,087	13,685
Cost of share-based payment	5,360	10,275	5,301	771
Others	2,305	9,062	20,340	2,959
	1,267,558	1,271,034	1,363,199	198,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. Income tax expense

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Current income tax				
Current income tax charge	158,420	104,584	104,149	15,149
Adjustments in respect of current income tax of previous year	(3,746)	(47)	7,175	1,044
Deferred tax				
Relating to origination and reversal of temporary differences	24,965	72,281	48,946	7,120
Income tax expense reported in the statement of profit or loss	179,639	176,818	160,270	23,313

Income tax expense reported in the consolidated statement of profit or loss differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2016, 2015 and 2014 for the following reasons:

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Accounting profit before tax	1,201,385	686,139	883,878	128,564
Computed tax expense of 15%	180,208	102,921	132,582	19,285
Adjustments resulting from:				
Non-deductible expenses	11,310	9,815	7,039	1,024
Tax-exempt income	(14,474)	(5,574)	(178)	(26)
Utilization of deferred tax benefits previously not recognized	(12,408)	(2,001)	(3,157)	(459)
Deferred tax benefits not recognized	—	61,299	9,045	1,316
Tax credits for research and development expense	(27,024)	(27,087)	(34,482)	(5,016)
Tax rate differential	20,985	24,249	25,321	3,683
(Over)/under provision in respect of previous years current tax	(3,746)	(47)	7,175	1,044
Withholding tax expense	24,175	13,126	16,925	2,462
Others	613	117	—	—
Total	179,639	176,818	160,270	23,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. Income tax expense (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2015	31.12.2016	31.12.2016	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	RMB'000	US$'000
Deferred tax liabilities							
Accelerated tax depreciation	(10,894)	(10,521)	(1,530)	—	(10,852)	373	54
Unremitted earnings from overseas source income	(412)	(437)	(64)	—	—	(25)	(3)
Interest receivable	18	(1,453)	(212)	—	—	(1,471)	(214)
Derivatives not designated as hedges- foreign exchange forward contract	(2,326)	—	—	—	(2,326)	2,326	338
PRC withholding tax on dividend income (i)	(113,805)	(103,347)	(15,032)	(24,175)	(12,549)	(16,628)	(2,419)
	(127,419)	(115,758)	(16,838)	(24,175)	(25,727)	(15,425)	(2,244)
Deferred tax assets							
Impairment of property, plant and equipment	11,881	2,876	418	2,614	409	(9,005)	(1,310)
Write-down of inventories	25,630	21,209	3,085	700	(3,867)	(4,421)	(643)
Allowance for doubtful account receivables	2,144	9,340	1,359	—	(3,361)	7,196	1,047
Accruals	232,302	185,952	27,048	(17,906)	17,253	(46,350)	(6,742)
Deferred income	60,886	70,931	10,317	(561)	(44,232)	10,045	1,461
Write down of intangible asset	—	—	—	15,000	(15,000)	—	—
Others	8,885	17,899	2,603	(637)	2,244	9,014	1,311
	341,728	308,207	44,830	(790)	(46,554)	(33,521)	(4,876)
				(24,965)	(72,281)	(48,946)	(7,120)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. Income tax expense (cont'd)

Deferred tax (cont'd)

Note:

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
At January 1	(133,788)	(113,805)	(16,553)
Provision made to consolidated statement of profit or loss	(12,549)	(16,628)	(2,419)
Utilization	32,616	27,107	3,943
Translation differences	(84)	(21)	(3)
December 31	(113,805)	(103,347)	(15,032)

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

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

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2016, the provision for withholding tax payable was RMB 103,347 (US$15,032) (2015: RMB 113,805). The amount of unrecognised deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 212,176 (US$:30,862) (2015: RMB198,319).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. Income tax expense (cont'd)

Deferred tax (cont'd)

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Deferred tax assets	341,728	308,207	44,830
Deferred tax liabilities	(127,419)	(115,758)	(16,838)
	214,309	192,449	27,992

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Unutilised tax losses	552,081	515,207	74,939
Unutilised capital allowances and investment allowances	112,312	106,781	15,532
Other unrecognised temporary differences relating to provisions and deferred grants	231,487	224,087	32,594
	895,880	846,075	123,065

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

10. Earnings per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. Earnings per share (cont'd)

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	**RMB'000**	**RMB'000**	**US$'000**
Profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share calculations	730,280	341,108	515,737	75,016
Weighted average number of ordinary shares for basic and diluted earnings per share calculations	37,720,248	38,712,282	40,016,808	40,016,808

Diluted earnings per share

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

	31.12.2014	31.12.2015	31.12.2016
Weighted average number of shares issued, used in the calculation of basic earnings per share	37,720,248	38,712,282	40,016,808
Diluted effect of share options	—	—	—
Weighted average number of ordinary shares (diluted)	37,720,248	38,712,282	40,016,808

In 2016, 530,000 (2015: 570,000; 2014: 570,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. Property, plant and equipment

	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At January 1, 2015	13,861	2,161,715	603,762	4,615,757	183,991	110,378	7,689,464
Additions	—	19,275	368,620	13,967	17,641	10,387	429,890
Disposal of subsidiary (Note 4)	—	(82,065)	—	—	—	—	(82,065)
Disposals	—	(15,422)	—	(70,738)	(16,906)	(6,154)	(109,220)
Transfers	—	229,790	(639,453)	408,845	818	—	—
Write-off	—	(165)	(4,812)	(5)	(2,045)	—	(7,027)
Translation difference	(560)	(5,968)	—	1,994	(2,051)	70	(6,515)
At December 31, 2015 and January 1, 2016	13,301	2,307,160	328,117	4,969,820	181,448	114,681	7,914,527
Additions	—	23,621	232,474	8,514	17,757	2,627	284,993
Acquisition as subsidiary	—	—	—	—	29	—	29
Disposals	—	(16,492)	—	(114,861)	(6,966)	(3,263)	(141,582)
Transfers	—	37,001	(224,440)	186,620	142	296	(381)
Write-off	—	—	—	—	(5)	—	(5)
Translation difference	429	356	—	(337)	56	84	588
At December 31, 2016	13,730	2,351,646	336,151	5,049,756	192,461	114,425	8,058,169
Accumulated depreciation and impairment							
At January 1, 2015	531	512,455	—	2,545,543	104,380	65,713	3,228,622
Charge for the year	—	79,042	—	345,977	22,162	8,821	456,002
Disposals of subsidiary (Note 4)	—	(15,468)	—	—	—	—	(15,468)
Disposals	—	(4,392)	—	(63,720)	(15,147)	(4,485)	(87,744)
Write-off	—	(64)	—	(5)	(2,027)	—	(2,096)
Impairment loss	—	—	—	2,873	—	—	2,873
Translation difference	(71)	1,284	—	694	807	80	2,794
At December 31, 2015 and January 1, 2016	460	572,857	—	2,831,362	110,175	70,129	3,584,983
Charge for the year	—	78,504	—	359,046	21,248	6,295	465,093
Disposals	—	(8,720)	—	(104,346)	(6,514)	(2,277)	(121,857)
Transfers	—	(24)	—	—	—	—	(24)
Impairment loss	—	—	—	3,297	—	—	3,297
Translation difference	7	(331)	—	(160)	(78)	54	(508)
At December 31, 2016	467	642,286	—	3,089,199	124,831	74,201	3,930,984
Net book value							
At December 31, 2015	12,841	1,734,303	328,117	2,138,458	71,273	44,552	4,329,544
At December 31, 2016	13,263	1,709,360	336,151	1,960,557	67,630	40,224	4,127,185
US$'000	1,929	248,634	48,895	285,172	9,837	5,851	600,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

An impairment loss of RMB 3,297 (US$ 480) (2015: RMB 2,873; 2014: RMB 10,433) was charged to the consolidated statement of profit or loss under "Cost of sales" for the Group's property, plant and equipment within the Yuchai segment. The impairment loss for 2014, 2015 and 2016 was due to assets that were not in use.

As of December 31, 2016, property, plant and equipment with a carrying amount of RMB 84,360 (US$12,271) (2015: RMB 90,045) are pledged to secure bank facilities.

Finance leases

The carrying value of property, plant and equipment held under finance leases at December 31, 2016 was RMB 144 (US$21) (2015: RMB 161). Additions during the year include RMB 86 (US$13) (2015: RMB Nil) of property, plant and equipment under finance leases.

12. Investment property

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Cost			
At January 1	—	31,323	4,556
Transfer from development properties	31,323	—	—
Translation difference	—	453	66
At December 31	31,323	31,776	4,622
Accumulated depreciation			
At January 1	—	23,886	3,474
Transfer from development properties	23,886	—	—
Charge for the year	—	248	36
Translation difference	—	344	50
At December 31	23,886	24,478	3,560
Net carrying amount	7,437	7,298	1,062
Fair value	7,437	10,149	1,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. Investment property (cont'd)

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

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

The fair value is determined by independent professional valuers that has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. In valuing the investment property, due consideration is given to factors such as location and size of building, building infrastructure, market knowledge, historical transactions and other relevant factors to arrive at their opinion of value.

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

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2016	Market comparison and cost method	Comparable price: - Land: RMB 24 to RMB 34 per square foot - Retail: RMB 337 to RMB 847 per square foot	The estimated fair value increases with higher comparable price
2015	Market comparable and investment method	Rental yield of approximately 3% based on valuer's assessment	The estimated fair value increases with higher rental yield

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. Prepaid operating leases

Yuchai is granted land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government.

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Current	12,546	12,546	1,825
Non-current	392,455	379,636	55,220
Total	405,001	392,182	57,045

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Cost			
At January 1	556,613	529,577	77,029
Disposals of subsidiary (Note 4)	(24,760)	—	—
Disposals	(2,276)	—	—
At December 31	529,577	529,577	77,029
Accumulated amortization			
At January 1	118,524	124,576	18,120
Charge for the year	13,433	12,819	1,864
Disposals of subsidiary (Note 4)	(7,099)	—	—
Disposals	(282)	—	—
At December 31	124,576	137,395	19,984
Net carrying amount	405,001	392,182	57,045

As of December 31, 2016, prepaid operating leases with a carrying amount of RMB 71,022 (US$10,330) (2015: RMB 74,377) are pledged to secure bank facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. Goodwill

	RMB'000	US$'000
Cost		
At January 1, 2015, December 31, 2015 and December 31, 2016	218,311	31,754
Accumulated impairment		
At January 1, 2015, December 31, 2015 and December 31, 2016	5,675	825
Net book value		
At December 31, 2015 and December 31, 2016	212,636	30,929

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

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

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

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Yuchai	212,636	212,636	30,929

Yuchai unit

The Group performs its impairment test annually. The recoverable amount of the unit was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period. The business of Yuchai is stable since the Group has control in 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections was 11.73% (2015: 11.46%). No impairment was identified for this unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. Goodwill (cont'd)

Key assumptions used in value in use calculations

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

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

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

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

Growth rate estimate – Growth rate is based on management's estimate with reference to general available indication of long-term gross domestic product growth rate of China. The long term rates used to extrapolate the budget for Yuchai are 6.5% and 6.7% for 2016 and 2015 respectively.

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in profit from operation by 16.19% (2015: 17.30%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 12.52% (2015: 12.96%) in the Yuchai unit would result in impairment.

Growth rate assumptions – Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 5.32% (2015: 4.40%) in the long-term growth rate in Yuchai unit would result in impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. Intangible assets

	Development costs
	RMB'000
Cost	
At January 1, 2015, December 31, 2015 and December 31, 2016	168,526
Impairment	
At January 1, 2015	60,000
Charge to consolidated statement of profit or loss	26,700
At December 31, 2015 and December 31, 2016	86,700
Net carrying value	
At December 31, 2015	81,826
At December 31, 2016	81,826
US$'000	11,902

The development costs are related to intellectual property right, technical skills and knowledge of building a new technology of heavy duty diesel engines. The Group has an intangible asset representing technology development costs held by Jining Yuchai with carrying amount of RMB 50,122 (US$7,290) (2015: RMB 50,122).

The Group perform an impairment review on intangible assets when there is a triggering event.

In 2014, the impairment test was triggered when the non-controlling interest disposed of its equity interest to an independent third party at a value below the net asset value of Jining Yuchai. In addition, modification has to be made to the existing technology that would defer the commercial deployment of this technology. As a result, an impairment charge of RMB 60,000 was made in respect of the technology development cost held by Jining Yuchai.

In 2015, the management performed impairment review based on the updated business plan after due considerations of a slowdown in the PRC economy. As a result, a further impairment loss of RMB 26,700 was charged to consolidated statement of profit or loss under the line item "selling, distribution and administrative costs" in respect of this technology development costs.

In 2016, management performed impairment review based on the updated business plan, which takes into consideration the business outlook for diesel engines industry in China. No further impairment loss was recognised in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. Intangible assets (cont'd)

The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth and past experience and did not exceed the estimated long-term average growth rate of the business in the PRC market. The recoverable amount of the intangible asset was based on its value in use. The Group used a 15 years forecast, using pre-tax discount rate of 12.98%. The revised business plan projected 5 years, year 2021 to reach the commercial deployment of the technology. The revenue growth rate is estimated at 6.7% in 2022 and thereafter management assumed no revenue growth from 2023 to 2031. In 2015, the Group used a 15-year forecast, from 2016 to 2030 using pre-tax discount rate of 12.34% and revenue growth rate of 11.10% from 2021 to 2026, 6 years after the expected commercial deployment of the technology. Thereafter, the growth rate is at 0% from 2026 to 2030.

If the pre-tax discount rate increased by 1% (2015: 1%) from management estimates, the Group's impairment loss on intangible asset in Jining Yuchai is RMB 2,443 (US$355) (2015: RMB 18,447).

16. Other financial liabilities

(a) Other liabilities

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Derivative not designated as hedges – foreign exchange forward contract	—	140	20
Finance lease liabilities (Note 31)	114	108	16
Total	114	248	36

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Current	59	178	26
Non-current	55	70	10
Total	114	248	36

Foreign exchange forward contract

On December 21, 2016, Yuchai entered into a non-deliverable forward foreign exchange contract ("NDF") with China Construction Bank ("CCB") to purchase US$ 15.3 million at the forward exchange rate (RMB/US$) of 7.0439 on December 20, 2017. The Group accounted for this NDF at fair value through "other operating expense" in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. Other financial liabilities (cont'd)

(b) Interest-bearing loans and borrowings

	Effective interest rate	Maturity	31.12.2015
	%		RMB'000
Current			
Renminbi denominated loans	4.72	2016	2,113,691
Euro denominated loans	0.95	2016	280,922
Malaysian Ringgit denominated loans	6.05	2016	4,582
			2,399,195
Non-current			
Renminbi denominated loans	8.28	2017	3,751
Singapore Dollar denominated loans[ii]	2.15	2017	32,138
Malaysian Ringgit denominated loans	6.05	2020	20,620
			56,509

	Effective interest rate	Maturity	31.12.2016	31.12.2016
	%		RMB'000	US$'000
Current				
Renminbi denominated loans	3.94	2017	753,750	109,636
USD denominated loans	3.70	2017	104,055	15,135
Singapore Dollar denominated loans[ii]	1.81	2017	33,616	4,890
Malaysian Ringgit denominated loans	5.90	2017	2,715	395
			894,136	130,056
Non-current				
Malaysian Ringgit denominated loans	5.90	2020	16,270	2,367

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. Other financial liabilities (cont'd)

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

Note: (cont'd)

(ii) The loans comprise:

Issuer bank	Facility limit	Usage
		RMB'000
December 31, 2015		
Bank of Tokyo-Mitsubishi, UFJ Ltd ("BOTM")	S$ 30 million	16,069
Sumitomo Mitsui Banking Corporation ("Sumitomo")	US$ 30 million	16,069
		32,138
December 31, 2016		
Bank of Tokyo-Mitsubishi, UFJ Ltd	S$ 30 million	16,808
Sumitomo Mitsui Banking Corporation	US$ 30 million	16,808
		33,616
	US$'000	4,890

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

On May 22, 2015, the Company entered into a three year revolving credit facility agreement with DBS with a uncommitted aggregate value of S$30.0 million. Among other things, the terms of the facility required that HLA retains ownership of the special share and that the Company remain a consolidated subsidiary of HLA. The terms of the facility also included certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not being less than US$350 million, and the ratio of the consolidated total net debt (as defined in the agreement) to consolidated tangible net worth not exceeding 1.0 times. This arrangement was used to finance the Group general working capital requirements.

S$30.0 million credit facility with BOTM, Singapore Branch

On March 13, 2014, the Company entered into a facility agreement with BOTM to refinance the existing revolving credit facility. The unsecured, multi-currency revolving credit facility has a committed aggregated value of S$30.0 million with three-year duration from March 18, 2014 to March 18, 2017. The facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that HLA retains ownership of the Company's special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not being less than US$120 million and the ratio of the Company's consolidated total net debt (as defined in the agreement) to tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. Other financial liabilities (cont'd)

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

US$30.0 million credit facility with Sumitomo, Singapore Branch

On March 12, 2014, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for a committed aggregate of US$30.0 million to refinance the US$30.0 million facility that was matured on March 18, 2014. The facility is available for three years from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not less than US$200 million and the ratio of the Company's total consolidated net debt (as defined in the agreement) to consolidated tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

Yuchai RMB 1 billion medium-term notes

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

Yuchai RMB 2 billion ultra short-term bonds

On April 8, 2015, Yuchai received approval from its board of directors, shareholders and China's National Association of Financial Market Institutional Investors ("NAFMII") to issue ultra short-term bonds ("USTB") amounting to RMB 2 billion with a term not exceeding 270 days, Yuchai issued the first tranche of the USTB amounting to RMB 400 million. The first tranche of the USTBs bear a fixed annual interest rate of 4.9% and matured on May 9, 2015. All the proceeds from the issuance of the USTBs were used by Yuchai as working capital and repayment of loans. On September 16, 2015, Yuchai issued the second tranche of the USTB amounting to RMB 400 million. The second tranche of the USTBs bear a fixed annual interest rate of 3.9%, matured and repaid on June 13, 2016. All the proceeds from the issuance of the USTBs were used by Yuchai for the repayment of loans. NAFMII's approval to issue USTB of RMB 2 billion is valid for two years commencing from February 28, 2015. No new USTB was issued by Yuchai in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. Deferred grants

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
At January 1	340,821	360,783	52,478
Received during the year	39,558	13,639	1,983
Released to consolidated statement of profit or loss	(19,596)	(36,533)	(5,314)
At December 31	360,783	337,889	49,147
Current (Note 28)	26,455	21,939	3,191
Non-current	334,328	315,950	45,956
	360,783	337,889	49,147

18. Inventories

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Raw materials	986,051	904,737	131,598
Work in progress	14,499	26,807	3,899
Finished goods	710,780	732,335	106,522
Total inventories at the lower of cost and net realizable value	1,711,330	1,663,879	242,019

Inventories recognized as an expense in "Cost of sales" are RMB 11,781,032, RMB 9,531,439 and RMB 9,313,436 (US$1,354,682) for the years ended December 31, 2014, 2015 and 2016 respectively.

An analysis of the inventory reserve accounts is as follows:

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
At January 1	108,353	132,306	19,244
Inventories written down	59,339	48,202	7,011
Reversal of write-down of inventories	(24,079)	(53,373)	(7,763)
Written off	(11,307)	(339)	(49)
At December 31	132,306	126,796	18,443

The inventories written down and reversal of write-down of inventories recognized as an expense and included in "Cost of sales" amounted to RMB 3,397, RMB 35,260 and RMB 5,171 (US$752) for the years ended December 31, 2014, 2015 and 2016 respectively. The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2014, 2015 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. Other current assets

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Development properties	22,609	23,378	3,400
Held for trading investment (Note 1.3)	11,984	12,181	1,772
Derivative not designated as hedges – foreign exchange forward contract	15,506	—	—
	50,099	35,559	5,172

Foreign exchange forward contract

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

20. Trade and bills receivables

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Trade receivables (net)	385,801	241,168	35,079
Bills receivable [i]	6,792,712	6,816,088	991,431
Total (Note 36)	7,178,513	7,057,256	1,026,510

[i] As of December 31, 2016, bills receivable includes bills receivable from joint venture and other related parties amounted to RMB 45,000 (US$6,545) (2015: RMB 50,000) and RMB 3,968 (US$577) (2015: RMB 2,000) respectively.

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

As of December 31, 2015 and 2016, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totalled RMB Nil and RMB 817,391 (US$118,893) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2015 and 2016, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 859,679 and RMB 851,099 (US$123,796) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. Trade and bills receivables (cont'd)

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
At January 1	21,927	51,288	7,460
Charge to consolidated statement of profit or loss	30,192	3,696	538
Written off	(827)	(346)	(50)
Translation differences	(4)	(4)	(1)
December 31	51,288	54,634	7,947

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

As of December 31, 2015 and 2016, gross trade receivables due from a major customer, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 19,914 and RMB 34,307 (US$4,990), respectively. See Note 33 for further discussion of customer concentration risk.

		Neither past due	Past due but not impaired			
	Total	nor impaired	0 – 90 days	91-180 days	181-365 days	>365 days
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31.12.2016	7,057,256	6,995,511	37,902	12,062	9,654	2,127
At 31.12.2015	7,178,513	6,914,279	161,642	52,442	39,052	11,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. Other receivables

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Staff advances	7,853	7,501	1,091
Associates and joint ventures	176,422	182,671	26,570
Other related parties	6,300	10,096	1,469
Interest receivables	7,280	6,775	985
Bills receivable in transit	2,998	29,134	4,238
Others	16,719	10,510	1,529
Impairment losses – other receivables (i)	(4,662)	—	—
Loans and receivables (Note 36)	212,910	246,687	35,882
Tax recoverable	135,241	102,024	14,840
Total	348,151	348,711	50,722

For terms and conditions relating to related parties, refer to Note 30.

Note:

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

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
At January 1	2,041	4,662	678
Charge to consolidated statement of profit or loss	2,746	—	—
Written off	(125)	(4,662)	(678)
At December 31	4,662	—	—

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

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Other receivables (non-current) (i) (Note 36)	1,519	1,588	231

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. Asset classified as held for sale

Sales of 60% of the issued ordinary shares in the capital of Copthorne Hotel Qingdao Co., Ltd ("CHQ")

The Group's subsidiary company, LKN Investment International Pte Ltd, together with the joint venture partner of CHQ, had on February 23, 2016, listed the entire equity interest in CHQ on the Shanghai United Assets and Equity Exchange for sale and the sale was re-listed on March 28, 2016.

As a result, the investment in CHQ was reclassified as asset held for sale and the Group discontinued the use of equity method to recognize the interest in CHQ. Consequently, the Group only shared the loss incurred by CHQ up to February 23, 2016. As at December 31, 2016, the Group remains committed to the sale of the equity interest in CHQ.

The asset classified as held for sale and the related reserves as at 31 December are as follows:

	31.12.2016	31.12.2016
	RMB'000	US$'000
Asset		
Interests in joint venture, representing asset classified as held for sale	89,381	13,001
Reserve		
Foreign currency translation reserve	22,720	3,305

23. Cash and cash equivalents

Short-term bank deposits

Restricted cash

Long-term bank deposits

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Non-current			
Long-term bank deposits (i)	60,000	—	—
Current			
Cash and cash equivalents	3,474,364	3,653,914	531,479
Short-term bank deposits (ii)	7,195	363,043	52,806
Restricted cash	300,564	36,000	5,236
	3,782,123	4,052,957	589,521
Cash and bank balances	3,842,123	4,052,957	589,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. Cash and cash equivalents (cont'd)

Short-term bank deposits

Restricted cash

Long-term bank deposits

Note:

(i) In 2015, long-term fixed deposits relate to time deposits with maturity more than 1 year and bear an annual interest rate of 4.03% with banks. These long-term fixed deposits are not considered as cash equivalents. In 2016, there was no long-term deposit placed with bank.

(ii) Short-term bank deposits relate to bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity. The interest rate of these bank deposits as of December 31, 2016 for the Group ranged from 0.83% to 4.03% (2015: 0.66% to 3.63%). These short-term bank deposits are not considered as cash equivalents.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rate of the bank deposits (excluding long-term bank deposits and short-term bank deposits) as at December 31, 2016 for the Group ranged from 0.86% to 2.10% (2015: 0.70% to 2.80%).

As of December 31, 2016, the Group has restricted cash of RMB 36,000 (US$5,236) which was used as collateral by the banks for the issuance of bills to suppliers and would mature within 1 year. As at December 31, 2015, the Group has restricted cash of RMB 300,564 which was deposited by Yuchai with ICBC as guarantee of short-term Euro loan granted by the same bank amounting to Euro 39.1 million, equivalent to RMB 275.8 million at annual interest rate of 0.30%. The loan was repaid in April 2016.

As of December 31, 2015 and 2016, the Group had RMB 300,404 and RMB 318,565 (US$46,336) respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2014, 2015 and 2016 were RMB 466, RMB 368 and RMB 392 (US$57) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

24. Issued capital and reserves

	31.12.2015 thousands	31.12.2016 thousands
Authorized shares		
Ordinary share of par value US$0.10 each	100,000	100,000

	Number of shares	RMB'000
Ordinary shares issued and fully paid		
At January 1, 2015	38,195,706	1,840,227
Issued on July 14, 2015 as dividend payment (Note 25)	1,102,634	115,493
At December 31, 2015 and January 1, 2016	39,298,340	1,955,720
Issued on June 29, 2016 as dividend payment (Note 25)	1,413,760	103,356
At December 31, 2016	40,712,100	2,059,076
US$'000		299,502

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$0.10 per share	*	*	*
Non-redeemable convertible cumulative preference shares	21	21	3

* Less than RMB 1 (US$1)

On June 29, 2016, based on the elections by shareholders, the dividend of US$0.85 per share for the financial year 2015 was paid in the form of approximately US$17.8 million in cash and 1,413,760 shares, at the volume weighted average trading price of US$11.0227 per share, with total value equivalent to RMB 103,356 (US$15,583).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

24. Issued capital and reserves (cont'd)

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

HLGE issued 197,141,190 NCCPS at an issue price of S$0.02 each on July 4, 2006, expiring on the 10th anniversary of the NCCPS issue date, and 197,011,794 NCCPS have been converted into ordinary shares in the capital of HLGE.

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

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

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

In 2016, HLGE issued a total of 2,899 new ordinary shares, pursuant to the conversion of 28,998 non-redeemable convertible cumulative preference shares, at an issue price of S$0.02 for each NCCPS. The NCCPS conversion ratio is one (1) new ordinary share for every ten (10) NCCPS converted.

The NCCPS are not listed and quoted on the Official List of the Singapore Exchange. However, the holders of the NCCPS are able to exercise their rights to convert the NCCPS into new ordinary shares at the adjusted NCCPS conversion ratio of one (1) new ordinary share for every ten (10) NCCPS following the completion of the HLGE's share consolidation exercise in May 2015, subject to the terms and conditions of the NCCPS. Such new ordinary shares will be listed and quoted on the Official List of the Singapore Exchange when issued.

In accordance with the terms and conditions of the NCCPS, the rights of NCCPS holders to convert all or any of their NCCPS into fully paid ordinary shares in the capital of the HLGE has lapsed on July 4, 2016 (being the date of expiry of the NCCPS Conversion Period). NCCPS are perpetual securities and there is no mandatory conversion of the NCCPS upon the expiry of the NCCPS Conversion Period.

Foreign currency translation reserve

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

Performance shares reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. Dividends declared and paid

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2016: US$0.85 per share (2015: US$1.10 per share)	257,500	221,549	32,225
	257,500	221,549	32,225
Dividend paid in cash	142,007	118,193	17,192
Dividend paid in shares (Note 24)	115,493	103,356	15,033
	257,500	221,549	32,225

26. Statutory reserves

	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2016 US$'000
Statutory general reserve (ii)			
At January 1	191,433	186,874	27,182
Transfer from retained earnings	1,332	923	134
Disposal of a subsidiary	(5,891)	—	—
At December 31	186,874	187,797	27,316
Statutory public welfare fund (iii)			
At January 1 and December 31	85,641	85,641	12,457
General surplus reserve (iv)			
At January 1 and December 31	25,706	25,706	3,739
Total	298,221	299,144	43,512

Note:

(i) In accordance with the relevant regulations in the PRC, Yuchai and its subsidiaries are required to provide certain statutory reserves which are designated for specific purposes based on the net income reported in the PRC General Accepted Accounting Principles 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)

26. Statutory reserves (cont'd)

Note: (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 shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the authorized share capital.

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

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

27. Share-based payment

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

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

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

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

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

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Expense arising from equity-settled share-based payment transactions	10,275	5,301	771
Total expense arising from share-based payment transactions	10,275	5,301	771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. Share-based payment (cont'd)

Movements during the year

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

	Number of Share options 2015	WAEP 2015	Number of Share options 2016	WAEP 2016
Outstanding at January 1	570,000	US$21.11	570,000	US$21.11
Cancelled during the year	—	—	(40,000)	US$21.11
Outstanding at December 31	570,000	US$21.11	530,000	US$21.11
Exercisable at December 31	190,000	US$21.11	353,333	US$21.11

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

Fair value of share options and assumptions

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

The exercise price for options outstanding as at December 31, 2016 was US$21.11 (2015: US$21.11).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2016 was 7.6 (2015: 8.6) years.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. Trade and other payables

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Trade and bills payables (i)	3,841,756	4,672,750	679,673
Other payables	1,300,439	1,203,908	175,114
Interest payable	33,492	890	129
Accrued staff costs	338,437	378,441	55,046
Dividend payable	41,377	37,851	5,506
Associates and joint ventures	18,909	91,439	13,300
Other related parties	142,932	120,619	17,545
Financial liabilities at amortized cost (Note 36)	5,717,342	6,505,898	946,313
Accrued contribution to defined contribution plans	27,820	27,820	4,047
Other tax payable	39,064	42,750	6,218
Trade and other payables with liquidity risk (Note 33)	5,784,226	6,576,468	956,578
Deferred grants (Note 17)	26,455	21,939	3,191
Deferred income (ii)	170,000	170,000	24,727
Advance from customers	96,168	76,636	11,147
Total trade and other payables (current)	6,076,849	6,845,043	995,643

(i) As of December 31, 2016, the trade and bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 50 (US$7) (2015: RMB Nil), RMB 12,210 (US$1,776) (2015: RMB 7,230) and RMB 133,708 (US$19,448) (2015: RMB 192,927) respectively.

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Other payables (non-current) (i) (Note 33, Note 36)	115,341	136,772	19,984

(i) Non-current other payables relate to provision for bonus of RMB 133,928 (US$19,480)(2015: RMB 115,341) which is not expected to be settled next 12 months and deferred income of RMB 2,844 (US$414) (2015: RMB Nil) in respect of progress payments received for sale of lands and will be credited to profit and loss upon completion of the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. Trade and other payables (cont'd)

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- Interest payable is normally settled throughout the financial year. As of December 31, 2015, interest payable related to outstanding Notes and USTBs were RMB 27,679 and RMB 4,576 respectively. As of December 31, 2016, there is no interest payable on Notes and USTB.
- For terms and conditions relating to related parties, refer to Note 30.

29. Provision for product warranty

	31.12.2015	**31.12.2016**	**31.12.2016**
	RMB'000	**RMB'000**	**US$'000**
At January 1	298,552	233,577	33,975
Provision made	307,575	350,803	51,026
Provision utilized	(372,550)	(345,530)	(50,259)
At December 31	233,577	238,850	34,742

30. Related party disclosures

The ultimate parent

As of December 31, 2016, the controlling shareholder of the Company, HLA, indirectly owned 16,360,845, or 40.2% (2015: 15,189,528 or 38.7%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.4% (2015: 22.5%) of the ordinary shares in the capital of the Company and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 16.8% (2015: 16.2%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of RMB 297, RMB 32 and RMB 34 (US$5) during the financial years ended December 31, 2014, 2015 and 2016 respectively. The transaction relates to consultancy fees charged by HLA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

30. Related party disclosures (cont'd)

Entity with significant influence over the Group

As of December 31, 2016, the Yulin City Government through Coomber Investment Ltd. owned 18.4% (2015: 18.4%) of the ordinary shares in the capital of the Company.

The following provides the significant transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2015 and 2016, refer to Note 21 and Note 28):

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Sales				
- Diesel engines to State Holding Company, its subsidiaries and affiliates	1,462	185	6,271	912
- Raw materials to State Holding Company, its subsidiaries and affiliates	802,715	516,494	441,238	64,180
- Hospitality and restaurant service charged to State Holding Company, its subsidiaries and affiliates	1,700	3,247	4,761	693
- Diesel engines and raw materials to associates and joint ventures	237,203	156,444	219,724	31,960
Purchase				
- Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company	1,460,956	1,181,852	1,028,358	149,579
- Purchases of raw materials and supplies from associates and joint ventures	87,509	90,354	308,488	44,871
Others				
- Delivery expense charged by subsidiaries of State Holding Company	213,747	164,690	143,077	20,811
- Storage and distribution expenses charged by a subsidiary of State Holding Company	32,131	30,462	50,181	7,299
- Property management service charged by an associate	24,713	23,359	20,976	3,051
- Leasing expenses charged by State Holding Company	4,853	12,951	4,715	686
- Consultancy fees charged by State Holding Company	—	—	10,026	1,458
- General and administrative expenses charged by State Holding Company	—	3,141	4,283	623
- General and administrative expenses charged by affiliates of HLA	6,821	6,271	6,887	1,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

30. Related party disclosures (cont'd)

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

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Others (cont'd)				
- Charged by joint venture for service provided	—	—	2,121	309
- Charged to subsidiaries of State Holding Company for service provided	—	—	8,873	1,291
- Rental income charged to State Holding Company and its subsidiaries	5,176	619	5,454	793
- Hotel management fees charged to a joint venture	1,383	—	—	—
- Purchases of vehicles and machineries from State Holding Company and its subsidiary	16,725	1,963	—	—
- Purchases of additional shareholding in a subsidiary of State Holding Company [(i)]	—	4,170	—	—

Note:

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

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.

Terms and conditions of transactions with related parties

The transactions with related parties are made at terms agreed between the parties. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

Compensation of key management personnel of the Group

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
Short-term employee benefits	39,812	27,331	31,975	4,651
Contribution to defined contribution plans	294	305	415	60
Cost of share-based payment	4,455	8,477	4,387	638
	44,561	36,113	36,777	5,349

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)

31. Commitments and contingencies

Operating lease commitments - Group as lessee

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

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Within one year			
- With related parties	5,405	800	116
- With third parties	7,858	11,338	1,649
After one year but not more than five years			
- With related parties	1,859	1,399	204
- With third parties	5,131	12,537	1,823
More than five years			
- With third parties	—	114	17
	20,253	26,188	3,809

The minimum lease payments recognized as an expense for the financial year ended December 31, 2014, 2015 and 2016 amounted to RMB 52,728, RMB 60,201 and RMB 54,617 (US$7,944).

Operating lease commitments - Group as lessor

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

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Within one year			
- With related parties	1,319	102	15
- With third parties	2,537	1,624	236
After one year but not more than five years			
- With third parties	9,128	1,855	270
More than five years			
- With third parties	18,967	268	39
	31,951	3,849	560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. Commitments and contingencies (cont'd)

Finance lease commitments

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

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

	31.12.2015		31.12.2016			
	Minimum lease payments	Present value of payments	Minimum lease payments		Present value of payments	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	US$'000
Not later than one year	64	59	43	7	38	6
Later than one year but not later than five years	59	55	70	10	70	10
Total minimum lease payments	123	114	113	17	108	16
Less: Amount representing finance charges	(9)	—	(5)	(1)	—	—
Present value of minimum lease payments	114	114	108	16	108	16

Capital commitments

As of December 31, 2015 and 2016, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid amounting to RMB 570,650 and RMB 427,089 (US$62,122) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2015 and 2016, the Group has commitment of RMB 6,195 and RMB 75,000 (US$10,909) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2015 and 2016, Yuchai had issued irrevocable letter of credits of RMB 3,981 and RMB 29,729 (US$4,324), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. Commitments and contingencies (cont'd)

Product liability

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

Environmental liability

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

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

32. Segment information

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

- Yuchai primarily conducts manufacturing and sale of diesel engines which are mainly distributed in the PRC market.

- The HLGE is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia. HLGE is listed on the Main Board of the Singapore Exchange.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. Segment information (cont'd)

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

Year ended December 31, 2014	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
External customers				
- Sale of goods	16,345,885	—	—	16,345,885
- Revenue from hotel and restaurant operation	31,502	47,313	—	78,815
- Revenue from sale of development properties	—	865	—	865
- Rental income	9,969	608	—	10,577
Total revenue	16,387,356	48,786	—	16,436,142
Results				
Interest income	42,014	1,463	2,347(1)	45,824
Interest expense	(149,797)	(7,710)	5,866(1)	(151,641)
Impairment of property, plant and equipment	(10,433)	—	—	(10,433)
Impairment of technology development cost	(60,000)	—	—	(60,000)
Depreciation and amortization	(422,777)	(7,872)	(607)(2)	(431,256)
Share of profit/(loss) of associates	960	(4)	—	956
Share of losses of joint ventures	(19,067)	(8,840)	(2,804)(9)	(30,711)
Income tax expense	(156,861)	(2,115)	(20,663)(3)	(179,639)
Segment profit	1,249,021	15,937	(63,573)(4)	1,201,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. Segment information (cont'd)

Year ended December 31, 2015	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
External customers				
- Sale of goods	13,634,395	—	—	13,634,395
- Revenue from hotel and restaurant operation	32,918	61,135	—	94,053
- Rental income	4,618	371	—	4,989
Total revenue	13,671,931	61,506	—	13,733,437
Results				
Interest income	35,557	1,415	4,342[(1)]	41,314
Interest expense	(110,618)	(7,595)	5,226[(1)]	(112,987)
Impairment of property, plant and equipment	(2,873)	—	—	(2,873)
Impairment of technology development cost	(26,700)	—	—	(26,700)
Depreciation and amortization	(458,759)	(10,060)	(616)[(2)]	(469,435)
Share of profit/(loss) of associates	250	(5)	—	245
Share of losses of joint ventures	(10,480)	(11,584)	19,128[(9)]	(2,936)
Income tax expense	(161,731)	(2,491)	(12,596)[(3)]	(176,818)
Segment profit	744,846	(7,564)	(51,144)[(4)]	686,138
Total assets	17,684,449	343,236	787,917[(5)]	18,815,602
Total liabilities	(9,183,670)	(359,796)	157,933[(6)]	(9,385,533)
Other disclosures				
Investment in associates	3,092	287	—	3,379
Investment in joint ventures	170,484	6,597	89,703[(8)]	266,784
Capital expenditure	428,917	929	44[(7)]	429,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. Segment information (cont'd)

Year ended December 31, 2016	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements	Consolidated financial statements
	RMB'000	RMB'000	RMB'000	RMB'000	US$'000
Revenue					
External customers					
- Sale of goods	13,542,568	—	—	13,542,568	1,969,828
- Revenue from hotel and restaurant operation	45,021	65,697	—	110,718	16,104
- Rental income	10,898	656	—	11,554	1,681
Total revenue	13,598,487	66,353	—	13,664,840	1,987,613
Results					
Interest income	51,235	1,919	3,829[1]	56,983	8,288
Interest expense	(73,028)	(7,706)	5,603[1]	(75,131)	(10,929)
Impairment of property, plant and equipment	(3,297)	—	—	(3,297)	(480)
Depreciation and amortization	(467,177)	(10,098)	(885)[2]	(478,160)	(69,550)
Share of profit/(loss) of associates	461	(5)	—	456	66
Share of losses of joint ventures	(349)	(3,252)	(467)[9]	(4,068)	(592)
Income tax expense	(141,272)	(2,281)	(16,717)[3]	(160,270)	(23,313)
Segment profit	906,311	(1,154)	(21,279)[4]	883,878	128,564
Total assets	17,324,947	342,656	928,903[5]	18,596,506	2,704,947
Total liabilities	(8,419,018)	(369,124)	177,448[6]	(8,610,694)	(1,252,465)
Other disclosures					
Investment in associates	3,553	283	—	3,836	557
Investment in joint ventures	173,781	2,714	(144)[8]	176,351	25,651
Capital expenditure	282,284	2,623	86[7]	284,993	41,454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. Segment information (cont'd)

Note:

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

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

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

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

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

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

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

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

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

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

Geographic information

Revenue from external customers:

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	RMB'000	US$'000
People's Republic of China	16,359,873	13,630,979	13,508,721	1,964,905
Other countries	76,269	102,458	156,119	22,708
	16,436,142	13,733,437	13,664,840	1,987,613

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

Revenue from one customer group amounted to RMB 3,580,856 (US$520,852) (2015: RMB 2,900,332; 2014: RMB 3,687,953), arising from sales by Yuchai segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. Segment information (cont'd)

Non-current assets

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
People's Republic of China	5,197,256	4,893,338	711,758
Other countries	96,805	95,430	13,881
	5,294,061	4,988,768	725,639

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

33. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and bank deposits that derive directly from its operations. The Group also holds held for trading investment and enters into derivative transactions.

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2015 and 2016.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at December 31, 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank deposits and loans and borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Group are disclosed in Note 16(b). As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest-bearing financial liabilities at the end of the reporting period and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis points 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 before tax for the year ended December 31, 2016 of the Group would increase/decrease by RMB 15,712 (US$2,285) (2015: increase/decrease by RMB 6,632).

Foreign currency risk

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

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimizing the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Foreign currency risk (cont'd)

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

	31.12.2015				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Held for trading investment	11,984	—	—	—	—
Trade and other receivables	565	407	12,762	32,651	—
Cash and bank balances	124,034	—	2,177	29,520	938
Financial liabilities	(32,163)	(280,924)	—	—	—
Trade and other payables	(12,978)	(50)	(5,051)	(2,020)	—
Net assets/(liabilities)	91,442	(280,567)	9,888	60,151	938

	31.12.2016				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Held for trading investment	12,181	—	—	—	—
Trade and other receivables	957	9,232	15,032	31,679	982
Cash and bank balances	117,763	3,841	7,247	—	—
Financial liabilities	(33,686)	—	(104,055)	—	—
Trade and other payables	(12,991)	(10,763)	(5,873)	(1,410)	—
Net assets/(liabilities)	84,224	2,310	(87,649)	30,269	982
US$'000	12,251	336	(12,749)	4,403	143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Foreign currency risk (cont'd)

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2015	**31.12.2016**	**31.12.2016**
	RMB'000	**RMB'000**	**US$'000**
Singapore Dollar	9,144	8,422	1,225
Euro	(28,057)	231	34
US Dollar	989	(8,765)	(1,275)
Renminbi	6,015	3,027	440

Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

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

	31.12.2015	**31.12.2016**	**31.12.2016**
	RMB'000	**RMB'000**	**US$'000**
Statement of profit or loss	1,198	1,218	177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Credit risk

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

Trade receivables

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistic for similar financial assets.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At December 31, 2016, the Group had top 20 customers (2015: top 20 customers) that owed the Group more than RMB 151,033 (US$21,968) (2015: RMB 196,537) and accounted for approximately 51% (2015: 45%) of trade receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 38 customers (2015: 47 customers) with balances greater than RMB 1,000 (US$145) accounting for over 79.6% (2015: 88.4%) of total trade receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20 and Note 21. The Group does not hold collateral as security.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Liquidity risk

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

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

As at December 31, 2015	One year or less RMB'000	Two to five years RMB'000	More than five years RMB'000	Total RMB'000
Financial assets				
Trade and bills receivables	7,229,801	—	—	7,229,801
Other receivables, excluding tax recoverable	217,572	1,519	—	219,091
Cash and bank balances	3,782,123	60,000	—	3,842,123
Held for trading investment and derivative not designated as hedges – foreign exchange forward contract	27,490	—	—	27,490
	11,256,986	61,519	—	11,318,505
Financial liabilities				
Interest-bearing loans and borrowings	2,473,654	59,673	—	2,533,327
Trade and other payables (Note 28)	5,784,226	115,341	—	5,899,567
Other liabilities	64	59	—	123
	8,257,944	175,073	—	8,433,017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Liquidity risk (cont'd)

As at December 31, 2016	One year or less RMB'000	Two to five years RMB'000	More than five years RMB'000	Total RMB'000	Total US$'000
Financial assets					
Trade and bills receivables	7,111,890	—	—	7,111,890	1,034,457
Other receivables, excluding tax recoverable	246,687	1,588	—	248,275	36,113
Cash and bank balances	4,052,957	—	—	4,052,957	589,521
Held for trading investment and derivative not designated as hedges – foreign exchange forward contract	12,181	—	—	12,181	1,772
	11,423,715	1,588	—	11,425,303	1,661,863
Financial liabilities					
Derivative not designated as hedges – foreign exchange forward contract	140	—	—	140	20
Interest-bearing loans and borrowings	909,824	18,409	—	928,233	135,016
Trade and other payables (Note 28)	6,576,468	136,772	—	6,713,240	976,472
Other liabilities	43	70	—	113	17
	7,486,475	155,251	—	7,641,726	1,111,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. Capital management

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

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

	31.12.2015	31.12.2016	31.12.2016
	RMB'000	RMB'000	US$'000
Interest-bearing loans and borrowings (current and non-current) (Note 16(b))	2,455,704	910,406	132,423
Trade and other payables (current and non-current) (Note 28)	6,192,190	6,981,815	1,015,537
Less: Cash and bank balances (Note 23)	(3,842,123)	(4,052,957)	(589,521)
Net debts	4,805,771	3,839,264	558,439
Equity attributable to equity holders of the parent	7,239,617	7,683,834	1,117,649
Total capital and net debts	12,045,388	11,523,098	1,676,088

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2016.

As disclosed in Note 26, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2015 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2015:

			Fair value measurement using		
	Date of valuation	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2015	11,984	11,984	—	—
Derivative financial asset:					
Foreign exchange forward contract - Euro (i) (Note 19)	December 31, 2015	15,506	—	15,506	—

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2016:

			Fair value measurement using		
	Date of valuation	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2016	12,181	12,181	—	—
Liabilities measured at fair value					
Derivative financial liabilities:					
Foreign exchange forward contract - USD (i) (Note 16(a))	December 31, 2016	140	—	140	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. Fair value measurement (cont'd)

Note:

(i) Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.

There have been no transfers between Level 1 and Level 2 during the period.

36. Financial assets and financial liabilities

	Note	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities at amortized cost	Total
		RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2015					
Financial assets					
Held for trading investment	19	11,984	—	—	11,984
Trade and bills receivables	20	—	7,178,513	—	7,178,513
Other receivables	21	—	214,429	—	214,429
Cash and bank balances	23	—	3,842,123	—	3,842,123
		11,984	11,235,065	—	11,247,049
Financial liabilities					
Trade and other payables	28	—	—	5,832,683	5,832,683
Loans and borrowings	16(b)	—	—	2,455,704	2,455,704
Other liabilities	16(a)	—	—	114	114
		—	—	8,288,501	8,288,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

36. Financial assets and financial liabilities (cont'd)

	Note	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities at amortized cost	Total	Total
		RMB'000	RMB'000	RMB'000	RMB'000	US$'000
As at December 31, 2016						
Financial assets						
Held for trading investment	19	12,181	—	—	12,181	1,772
Trade and bills receivables	20	—	7,057,256	—	7,057,256	1,026,510
Other receivables	21	—	248,275	—	248,275	36,113
Cash and bank balances	23	—	4,052,957	—	4,052,957	589,521
		12,181	11,358,488	—	11,370,669	1,653,916
Financial liabilities						
Trade and other payables	28	—	—	6,642,670	6,642,670	966,207
Loans and borrowings	16(b)	—	—	910,406	910,406	132,423
Other liabilities	16(a)	—	—	248	248	36
		—	—	7,553,324	7,553,324	1,098,666

Held for trading investment relates to the Group's investment in TCL, which is a company listed on the main board of the Singapore Exchange and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. Fair values of the quoted equity shares are determined by reference to published price quotations in an active market.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

36. Financial assets and financial liabilities (cont'd)

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 management assessed that cash and cash equivalents, short-term deposits, restricted cash, trade and bills receivables, other receivables, trade and other payables and interest-bearing loans and borrowings (current) approximate their carrying amounts largely due to the short-term maturities of these instruments.

The management assessed that long-term bank deposits, non-current other receivables, interest-bearing loans and borrowings (non-current), non-current other payables and other liabilities approximate their fair value as their interest rates approximate the market interest rates.

37. Events after the reporting period

Proposed disposal of the equity interest in LKN Investment International Pte. Ltd.

On February 13, 2017, HLGE announced that it had entered into a memorandum of understanding with Jingrui Properties (Group) Co., Ltd ("Purchaser") in relation to the proposed disposal of all the issued shares in the capital of LKN Investment International Pte. Ltd. ("LKNII"). LKNII is an investment holding company which owns 100% equity interest in Shanghai Hutai Real Estate Development Co., Ltd and 60% equity interest in CHQ.

The indicative aggregate consideration payable by the Purchaser to HLGE will be RMB 550,000 (US$80,000). The proposed disposal is subject to both parties entering into a sale and purchase agreement and the approval of the shareholders of HLGE at an extraordinary general meeting to be convened.

On February 28, 2017, both parties agreed to extend the long stop date for the execution of the sale and purchase agreement to March 15, 2017 and Natural Apex Limited, the related company of the Purchaser, shall purchase the entire shares in LKNII, subject to the terms of the sale and purchase agreement to be executed between LKNII and Natural Apex Limited.

On March 15, 2017, the long stop date for the execution of the sale and purchase agreement was further extended to April 15, 2017.

On April 16, 2017, HLGE announced that no sale and purchase agreement had been entered into between the parties by the Long Stop Date and as there was no extension of the Long Stop Date, the MOU had lapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

37. Events after the reporting period (cont'd)

Pre-listed of equity interest in CHQ on Shanghai United Assets and Equity Exchange ("SUAEE")

On March 31, 2017, HLGE announced that it had on the same day, together with the other 40% equity holder, pre-listed its entire shareholding interest in CHQ on SUAEE in accordance with the amended listing procedures of SUAEE. The pre-listing process would be for a fixed period of 20 business days and interested parties would not be invited to put in a bid nor will a reserve price be set. Upon the expiry of the pre-listing period on April 28, 2017, the formal listing of the sale will take place whereupon interested parties will be invited to put in their bids. Upon the close of the public tender process, the successful bidder (if any) will be selected by SUAEE and the sellers whereupon a sale and purchase agreement can be negotiated and entered into.

Incorporation of MTU Yuchai Power Co., Ltd

On January 18, 2017, the joint venture entity, MTU Yuchai Power Co., Ltd ("MTU Yuchai Power") was incorporated. This was further to the Company's announcement made on February 19, 2016 that Yuchai had entered into an agreement with MTU Friedrichshafen GmbH ("MTU"), a subsidiary of Rolls-Royce Power System, to set up a 50-50 joint venture entity. MTU Yuchai Power will produce, under license from MTU, the MTU's diesel engines in China.

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