

Accelerating into a  
**Green Year**



China Yuchai International Limited  
Annual Report 2011



## ADVANCING TOWARDS A GREEN FUTURE

- We launched our YC6L-60 heavy-duty diesel engine compliant with National VI emission standards in October 2011;
- Our National V compliant diesel engines are in operation in public transit systems in the major cities of Beijing and Guangzhou;
- Our National V compliant gas engines are in operation in both trucks and buses in Xinjiang, Sichuan and South western China;
- Over 1,000 units of our hybrid diesel engines (expected to reduce fuel consumption by 25% to 30%) are being used in public transit fleets in the cities of Tianjin, Kunming, Hangzhou and Chongqing;
- We delivered over 13,000 gas engines (CNG, LNG and LPG) to both truck manufacturers and bus OEMs in 2011 and have started construction on a new facility to develop and produce a full portfolio of natural gas powered engines;
- Operations at our new Research & Development Institute located in the High Tech Development Zone of Nanning, the capital of Guangxi Province, are expected to begin in late 2012.

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## CHINA YUCHAI'S CORE IDEALS

### VISION

- CYI to be a strategic holding company in the transport sector providing high value added products and services which are environmentally friendly and create value to its stakeholders

### MISSION

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

## 玉柴国际的核心理念

### 愿景

- 玉柴国际要成为在运输领域的战略控股公司，以提供高附加值和环保的产品及服务并为股东创造价值

### 使命

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

# FINANCIAL HIGHLIGHTS

	2009	2010	2011
	Rmb'000	Rmb'000	Rmb'000
Net revenue	13,175,903	16,208,184	15,444,428
Profit attributable to owners of the Parent*	628,331	1,117,297	818,532
Earnings per share attributable to owners of the Parent	16.86	29.98	21.96
Weighted average number of shares	37,267,673	37,267,673	37,267,673
Total assets	13,305,911	16,246,263	19,151,019
Equity attributable to owners of the Parent	4,049,331	5,097,947	5,542,203

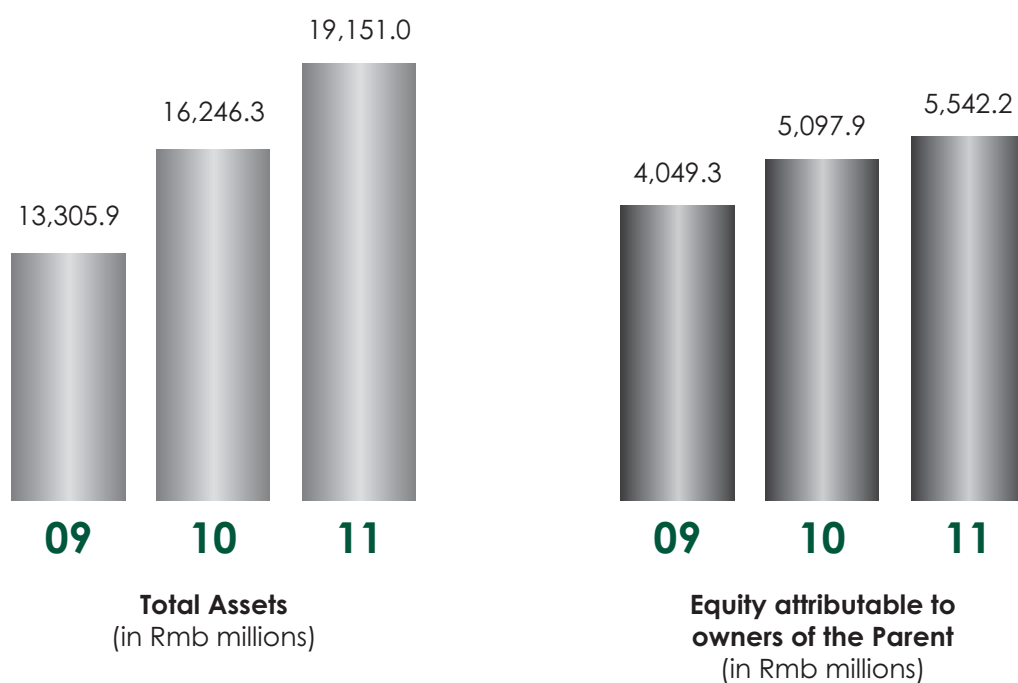
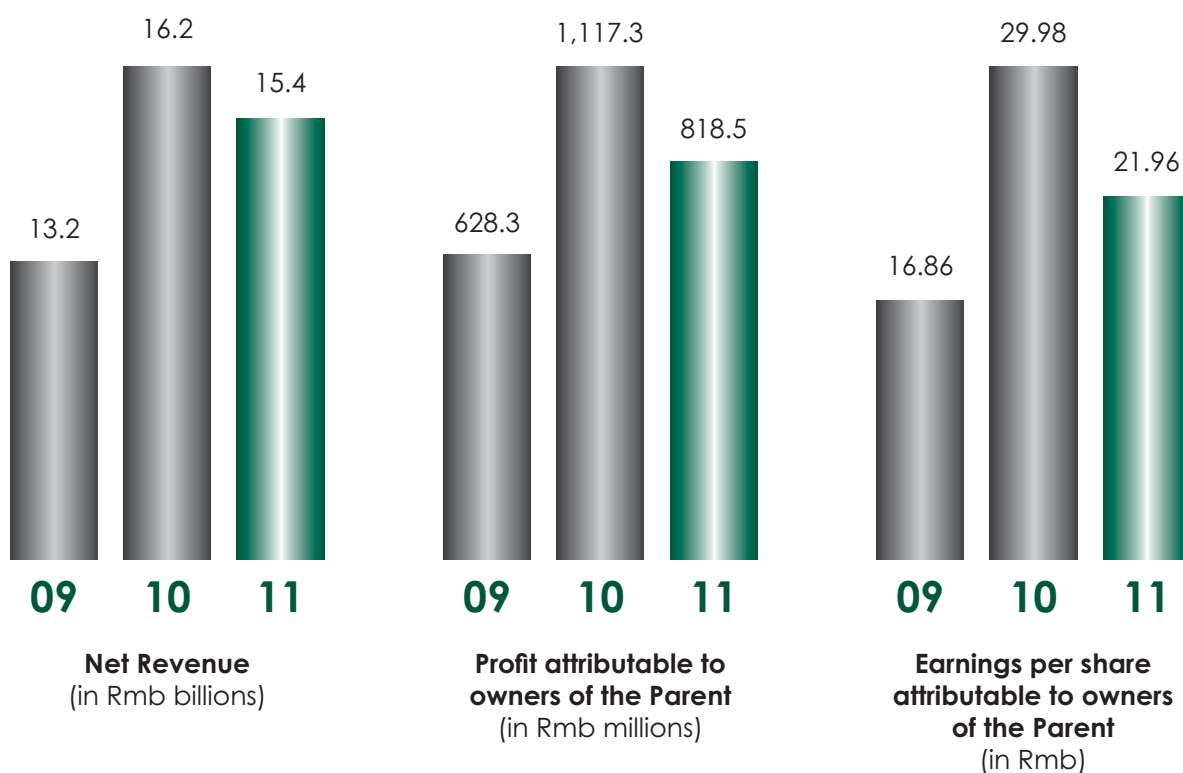
\*the term "Parent" as used here refers to China Yuchai.

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we sold  
**510,777**  
 diesel engines

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## FINANCIAL HIGHLIGHTS





- Net Revenue : RMB 15.4 billion
- Operating profit : RMB 1.5 billion
- Diesel Engines sold : 510,777

## PRESIDENT'S STATEMENT

Dear Shareholders,

It is with great honor and pleasure that I write my first letter to our shareholders as the new President of China Yuchai International Limited (CYI). CYI closed 2011 with a good set of results despite the difficulties in the diesel engine market in China. Although our revenues and profits were weaker compared to 2010, we achieved the second best year in our history as a listed company on the New York Stock Exchange.

As you are aware, 2011 was a challenging year for the automotive industry in China, as the impact of changes in monetary policy in reaction to general worldwide economic conditions over the past 3 years, first stimulated and then depressed sales in the sector. We went from general economic stimulus and automotive-related incentives in 2008 and 2009, which in turn drove massive growth and spurred general inflation, to restrictive monetary policies and a cessation of automotive-related incentives in 2011. Higher fuel prices in a competitive environment impacted vehicle operators, who were unable to pass on these costs to customers, and as a result were less likely to commit to purchasing new vehicles. New government safety regulations instituted in 2011, such as those designed to eliminate overloaded trucks, also affected operators. In addition, the Chinese economy was buffeted by a series of global concerns during the year including the evolving sovereign debt crisis in the Eurozone, continuing geopolitical unrest in the Middle East and concerns over the impact on world oil production, and fall-out from the earthquake and resulting nuclear crisis in Japan.

The China Association of Automobile Manufacturers (CAAM) reported that in 2011, commercial vehicle sales declined by 6.3% compared with 2010. The truck segment saw a greater impact with an 8.2% sales decline compared with 2010, causing inventories to rise to unsustainable levels. On the other hand, sales in the smaller bus market grew by 10.1% in 2011, due to the ongoing expansion of the highway system and continued urbanization which generated more

demand for municipal buses. The fourth quarter of 2011 saw some promise in commercial vehicle segments as medium-duty truck sales, a market in which we are the leader, rose by 23.5% and diesel-powered bus sales were 6.9% higher than in the fourth quarter of 2010. Our net revenue for 2011 was RMB 15.4 billion (US\$2.5 billion) compared with RMB 16.2 billion in 2010. The total number of diesel engines sold by our subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL") was 510,777 in 2011, a 7.4% decline from the 551,592 units sold in 2010. We were able to mitigate the softening commercial vehicle market with our broad portfolio of diesel engines, as higher sales of light-duty and off-road engines partially offset lower sales to the truck market. Our off-road sales rose by 24%, primarily because of higher engine sales to the construction and power generation markets. Our diversification strategy of being in different industries and offering a broad range of diesel engines has proved to be a key competitive advantage.

Our research and development expenditures rose to RMB 328.1 million (US\$52.1 million) in 2011 from RMB 324.1 million in 2010. This represented 2.1% of net revenues, as we continued to develop new products and more advanced engines with higher fuel efficiency and better emission standards. During 2011, we introduced the heavy-duty model YC6L-60 diesel engine, China's first Euro VI-compliant automotive diesel engine, setting another milestone in our long history of being the first to achieve new technology breakthroughs in China. Since the European Union (EU) introduced the Euro VI emission standards in 2009 which will be implemented in the EU in 2013, it has become the most stringent emission standard in the world. Our production of the YC6L-60 diesel engine is another demonstration that our research and development capabilities continue to meet global technology standards.

We are confident that our new Nanning Research and Development Institute, which is expected to be operational later in 2012, will further enhance our technical development capabilities. We are focused on meeting evolving stringent emission standards, as National IV is scheduled to be

implemented nationwide in China in July 2013, and we have already developed diesel engines compliant with National V and VI emission standards to maintain our leadership in automotive emission controls in China. The Chinese Government has been adopting stricter emission standards to reduce pollution and protect the environment as part of its 12th Five Year Plan. Our National V compliant diesel and gas engines are already in the marketplace to meet local requirements as well as our YC4G, YC6G and YC6J hybrid engines. Approximately 13,000 natural gas engines produced by GYMCL were delivered in 2011 and our new gas engine development project will advance our production capabilities of gas engines as well as complement our existing suite of engine models. With this new project, our customers will have the option of using either diesel or natural gas engines.

In 2011, we received a number of awards and commendations, including being ranked No. 215 in China's Top 500 Enterprises in 2011, ranked No. 19 in China's Top 500 Manufacturing Enterprises in 2011, and recognized as a First Tier Diesel Engine and Accessories Manufacturing Company. Our YC6L engine won the 2011 Outstanding Commercial Vehicle Engine Award. These acknowledgements provide further evidence of our technological leadership.

We achieved a number of operational objectives in 2011. Trial production of our CIMC-Chery joint venture facility for the YC6K heavy-duty engine commenced and the production line is now fully commissioned. The existing capacity of 15,000 units is expandable to 30,000 units, should demand increase. We also expanded the production capacity of our traditional YC6L and YC6M heavy-duty engines to 120,000 units annually. We remain committed to expanding our market position in the heavy-duty diesel engine market in China, as more goods are being shipped farther at faster speeds with the highway expansion. Economic development will follow the highway expansion creating still greater demand for the transport of more goods. The YC6K engine provides a higher power range than the YC6L or YC6M, and it will accommodate different vehicles.

Civil construction on Phase 2 of our foundry expansion is complete and operations are expected in the second quarter of 2012. Together with the current foundry operations, total capacity will reach 1 million engine heads/blocks. With this expansion, we will have the largest foundry and engine casting facility in China. As expected, a high standard and quality is being achieved with less than a 1% rejection rate, saving approximately 5% of raw material costs and improving gross margins. We have also continued with our implementation of Lean Six Sigma to improve productivity and ensure our products earn a good return at competitive prices.

During 2011, our remanufacturing joint-venture with Caterpillar began initial production at a temporary site. Construction of the permanent factory beside the temporary site, located at the Suzhou Industrial Park is expected to be completed and full operations to begin by the end of 2012. The first remanufactured engine was produced and delivered in September 2011, and various components are now being remanufactured. The remanufacturing operation will leverage our service network of over 2,800 locations, the largest such network in China. We anticipate that we will become the leader in engine parts remanufacturing in China over the next few years. Our joint venture with Geely has developed newer versions of the 4D20 prototype engines for Geely's passenger vehicles.

The Chinese Government has in 2012, begun to ease its monetary policy to cushion its economy against the fall-out from the sovereign debt crisis in the Eurozone. It will take time for the impact to be felt, but we believe the outlook for the second half of 2012 is slightly more encouraging for the Chinese and global economies, including commercial vehicle sales. Commercial vehicle inventories should be better managed, and spending on infrastructure should increase. Additional capital spending on low income housing, railway expansion and hydroelectric power facilities should help sustain growth in the second half of 2012, albeit at a lower rate than in the past.

Net profit attributable to our shareholders in 2011 was RMB 818.5 million (US\$129.9 million) compared to RMB 1.1 billion in 2010. Earnings per share were RMB 21.96 (US\$3.49) in 2011 compared to RMB 29.98 in 2010. Our strong cash flow enabled us to reward our shareholders in 2011 with an increased cash dividend of US\$0.50 per ordinary share and a special dividend of US\$1.00 per ordinary share.

In 2012, we are diligently working on several initiatives to position CYI for growth. We remain committed to offering a diversified portfolio of advanced engines to meet the requirements of customers in a number of markets including the truck, bus, construction, power generation, mining, marine and agriculture industries. While our focus remains on the truck and bus markets, we are making progress into off-road applications, as there is an opportunity to increase our market share in this sector. We will be commencing construction of facilities at GYMCL's main plant in the second quarter of 2012 to produce marine and power generator engines (known as high horse power engines). These engines have a capacity of between 16 litres to 53 litres and will meet the needs of the construction, marine and power generation segments, where we intend to expand our market position. The high horse power engines will also be considered for export which presents a potential opportunity for us.

The Chinese Government has recently revised the growth target for 2012 downwards to 7.5% compared with 9.2% in 2011 and 10.4% in 2010. This clouds the outlook for engine demand in a slowing economy; however we are prepared to manage our operations for optimal success. Significant strides were made in 2011 to expand our product portfolio and position CYI for future growth.

We look forward to increasing our footprint in the heavy-duty diesel engine market through our CIMC-Chery joint venture, expanding our light-duty diesel engines through our joint venture with Geely, growing our remanufacturing services with Caterpillar, launching a new line of engines fueled by natural gas, and introducing our higher horse power engines for the construction, mining, marine and power generation markets. New products that we develop will also provide greater access to export markets as another potential growth avenue.

We believe that we are well-positioned to meet the challenges ahead through our ability to rapidly respond to market opportunities with technologically advanced solutions and creative thinking. We remain committed to building long-term value for our customers and our shareholders.

**Mr. Benny H Goh**  
President, May 15, 2012

# 总裁致词

亲爱的股东，

很荣幸在这里首次作为中国玉柴国际有限公司（玉柴国际）的新主席向我们的股东写出主席致辞。尽管中国的柴油发动机市场在2011年面临困难，玉柴国际在2011年仍取得了良好的成绩。尽管我们的收入和利润与2010年相比较弱，我们仍然取得了自纽约证券交易所上市以来第二最好的业绩。

你可能已经意识到2011年对中国的汽车市场来讲是非常有挑战性的一年。因为在过去三年中为应对国际经济大环境的变化，中国的货币政策先刺激消费而后紧缩消费。从一般性经济刺激到2008年和2009年的汽车产业相关刺激促进了经济的大规模上涨和导致了通货膨胀，所以2011年的政策为限制性货币政策和停止汽车产业的相关刺激。高度竞争经济下的高油价影响了汽车运营商，其成本的提高难以由消费者承担，所以其无法承诺购买更多的车辆。2011年新出台的减少超载卡车的政府安全规定也影响了汽车运营商。此外，中国的经济也受一些其他因素影响，比如欧洲主权债务危机升级、中东区域的持续动乱、世界石油生产的变动、日本地震和核危机。

中国汽车制造商协会（中汽协）在2011年报道，商用车的销量与2010年相比下降了6.3%。卡车销量与2010年相比下滑了8.2%，导致了库存上升到无法维持的地步。另一个方面，因为持续的高速公路系统的建设和持续的城市化进程带来的较多的需求，小型客车的销售2011年增长了10.1%。在2011年的第四季度，商用车市场稍见起色，因为在我们位于领导者地位的中型卡车领域销量增长了23.5%，并且柴油客车的销量比2010年第四季度增长了6.9%。我们2011年的净营业收入为人民币154亿元（美元25亿元），2010年净营业收入为人民币162亿元。我们的子公司，广西玉柴机器股份有限公司（广西玉柴）所销售的柴油发动机在2011年为510,777台，比2010年的551,592台降低了7.4%。凭借我们柴油发动机领域的广泛组合，我们能够的抵消商用车市场的疲软，因为轻型发动机和非路用发动机的较高利润率一定程度上抵消了卡车市场的较低销售量。我们在不同产业间的多样化的产品策略提供一系列柴油发动机使我们产品有关键的竞争优势。

我们的2011年研发经费上升到人民币3.281亿元（美元5210万），在2010年为人民币3.241亿元。因为我们持续开发新产品和有更先进的燃油效率和符合更高排放标准的发动机，研发经费占我们净营业收入的2.1%。2011年，我们引进了发动机型号YC6L-60的重型柴油。其为中国第一台符合欧六排放标准的汽车柴油机发动机，成为我们不断取得科技进步历史上的一座里程碑。欧洲在2009年开始了欧六排放标准，该标准会于2013年在欧洲实施并且已经成为了世界上最严格的排放标准。生产YC6L-60柴油发动机是我们研发能力持续满足全球标准的体现。

我们预期于2012年底开始运营的新南宁研发机构将进一步提升我们科技发展能力。我们将着眼于满足更加严格的排放标准，因为国四排放标准将于2013年7月在全国范围内实施。此外，我们已经开发了符合国五和国六排放标准的柴油发动机来保持我们汽车排放控制领域内的领先地位。作为第十二个五年计划的一部分，中国政府已经采取了更严格的排放标准来减少污染和保护环境。满足国五排放标准的柴油机和气体发动机已经在市场上销售以满足本地的需求，并且我们还有YC4G, YC6G和YC6J混合发动机。在2011年大约有13,000台天然气发动机由广西玉柴生产并且送达给客户。我们新的气体机项目将会提升我们气体发动机的生产能力并且补充我们既存的发动机类型。有了此新项目，我们的客户将可以选择使用气体发动机或柴油发动机。

在2011年，我们得到了很多奖项和推荐，其中包括在2011年中国企业500强中位列第215名，在中国的生产型企业500强中位列第19名，被认定为优等柴油发动机和配件生产企业。我们的YC6L发动机赢得2011年杰出商用车发动机奖项。这些奖励进一步认可了我们科技上的领导能力。

我们在2011年完成了一系列的经营目标。CIMC-Chery合作项目工厂生产的YC6K重型发动机试生产已经开始并且试生产线已经安装完毕。我们也扩展了传统的YC6L和YC6M重型发动机的产能到年产120,000台。更多的货物被以更快的速度运送到更远的地方，并且高速公路的扩张和经济的发展创造了运输货物的更多需求。我们承诺增强我们在中国重型发动机市场的地位。YC6K发动机提



供了比YC6L或YC6M更高的动力范围，并且可以适用于不同的车型。

我们铸造工厂扩建之第二阶段建设已经完成，预期于2012年第二季度运营。与目前的铸造工厂合并起来，总生产能力将到达1百万的发动机缸盖/缸体。扩张之后，我们将拥有中国最大铸造厂和发动机铸造设施。小于1%的废品率节省了大约5%的原料成本和提高了毛利率。我们将持续实施六西格玛来提高效率和保证产品价格有竞争力以取得优秀的回报。

在2011年，我们和卡特皮勒的再制造合作项目在一个临时场地开始了首次生产。在苏州工业园的永久场地紧邻临时场地，其建设预期于2012年底完成。第一台再制造的发动机在2011年9月生产和送达给客户，并且各种零件也在再生产中。再制造的运营利用我们在不同地点的超过2800个的服务网络，该服务网络是中国最大的服务网络。我们希望可以在将来的几年内成为中国发动机零件制造的领导者。我们与吉利的合资公司将为吉利的商用车开发更新版本的4D20发动机。在2012年，中国政府已经开始慢慢放松其货币政策来缓冲欧洲主权危机对其经济影响。尽管需要时间来检验其效果，但我们认为在2012年下半年，中国和全球的经济（包括商用车销售）将会有所好转。对低收入保障房的投资、铁路系统和水电动力设施的扩张将帮助2012年下半年经济保持增长，尽管增长幅度有所放缓。

归属于股东的净利润在2011年为人民币8.185 亿元（美元1.299 亿元），2010年为人民币11亿元。每股净收入为人民币21.96元（美元3.49元）。强劲的现金流使我们能在2011年回馈给股东每普通股普通股息0.5美元和每普通股特别股息1美元。

在2012年，我们努力促进玉柴国际的增长。我们承诺提供一系列多样化的先进发动机来满足在包括卡车、客车、工程机械、发电机、采矿业、船机和农业各种领域的顾客的不同需求。尽管我们强调卡车和客车市场，我们仍向非道路市场前进。我们将于2012年第二季度在广西玉柴的总厂开始厂房的建设，来生产更多的船机和发电机主机（称为高马力发动机）。这些发动机的容量在16升到53升之间，以满足建设、船机、发电机领域的需

要和提高我们的商业地位。我们也会考虑将高马力发动机出口的潜在机会。

中国政府已经将2012年经济增长目标降低为7.5%，然而2010年经济增长为10.4%，2011年为9.2%。缓慢增长的经济为发动机的增长前景蒙上了阴影，然而我们已经准备好以取得更优异的表现。在2011年我们花费了很多时间和精力来扩充我们的产品范围来为玉柴国际未来的发展定位。

我们期待通过CIMC-Chery合资项目，增长我们在重型柴油发动机的市场；通过我们和吉利的合资项目，扩展我们在轻型柴油发动机的市场份额，促进我们和卡特皮勒的再制造业务，发展一系列以天然气为燃料的发动机，并且引进我们为建设、矿业、船机、和发电机市场而设计的高马力发动机。我们将探索出口开发的新产品来获得进一步的增长。

我们坚信通过快速对市场机遇的反应能力和凭借先进科技的解决方案和创造性思维，我们已经做好准备迎接挑战，并且承诺将为我们的客户和股东创造长期的价值。

吴兴兴先生

总裁, 2012年5月15日

# CORPORATE BACKGROUND

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

The Group's principal operating subsidiary Guangxi Yuchai Machinery Company Limited ("GYMCL") is one of the largest diesel engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL produces and provides a comprehensive range of products covering light-duty, medium-duty to heavy-duty diesel engines, engine parts and components, diesel-powered generators, industrial engines, marine engines and natural gas engines to meet the needs across different sectors. GYMCL's products range from 1.2L to 53L over 10 engine platforms with a power range from 60PS to 1200PS. In its current portfolio, the number of engine series offerings is 26 and GYMCL is intending to further expand its reach in the passenger car and marine and power generator markets. Equipped with a strong research and development capability focused on product enhancement and new designs, GYMCL was the first to launch diesel engines compliant with National IV emission standards which is expected to be implemented nationwide in China in July 2013, and has already produced engines compliant with National V and VI emission standards.

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 two other companies in Singapore, namely Thakral Corporation Ltd ("TCL") and HL Global Enterprises Limited ("HLGE"). Currently, CYI holds 12.2% and 48.9% shareholding interest in TCL and HLGE respectively.

TCL group is a distributor of branded consumer electronic products with operations mainly in the People's Republic of China (PRC), including Hong Kong. TCL also has other business activities relating to strategic property and equity investments.

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

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

## 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并于2008年3月7日在新加坡登记成立分公司。玉柴国际是新加坡丰隆亚洲有限公司（“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。

广西玉柴机器股份有限公司（“广西玉柴”）是玉柴国际的主要子公司，其也是中国最大的柴油发动机制造商之一。广西玉柴位于中国南部的广西壮族自治区玉林市。公司生产制造销售多样化的机型产品，包括轻型柴油机、中型柴油机、重型柴油机、发动机零部件、柴油发电机、工业发动机、船机和天然气发动机等各类型产品来满足市场的不同需求。其产品涵盖十个主要机型容量从1.2升到53升，功率从60马力和1200马力的各种类型发动机。依托于现有组合，其有26个系列的发动机并且其将进一步增强发电发动机和船机的生产。凭借其强大的产品提升和设计新产品的研发能力，广西玉柴为第一个推出符合国四排放标准柴油发动机的厂商，该标准预期于2013年7月在全国范围内实行。其也有能力生产符合国五和国六排放标准的发动机。

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。通过6家全资子公司，目前玉柴国际持有广西玉柴76.4%的股权。

此外，玉柴国际还在新加坡投资了另外两家公司，即丰隆环球有限公司（“丰隆环球”）和Thakral Corporation（“TCL”）。玉柴国际目前持有HLGE之48.9%和TCL之12.2%的股权。

TCL集团主要从事消费类电子产品的分销，其运营地区主要分布在包括香港在内的中国地区。除了消费类电子产品，TCL还涉足战略管理、房地产开发及股本投资等其他业务。

HLGE的核心业务是酒店经营与房地产开发。

TCL和HLGE均在新加坡交易所主板上市。

# OUR CHINA-WIDE PRESENCE



**Guangxi Yuchai Machinery Company Limited**  
公司总部



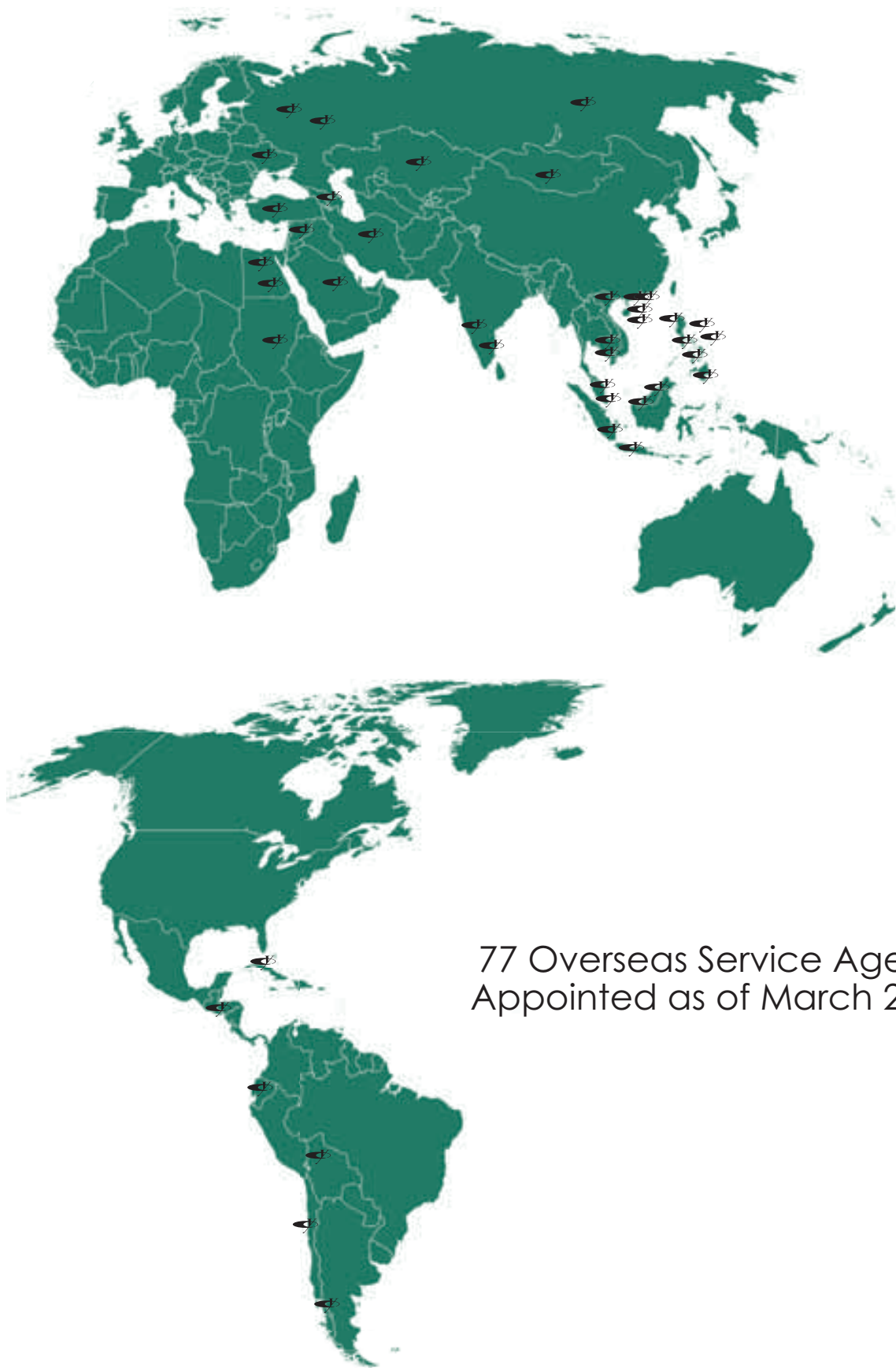
**33 regional offices**  
玉柴办事处



**2800 customer service stations**  
玉柴技术服务站

*As of March 2012*

# YUCHAI OVERSEAS NETWORK



77 Overseas Service Agents  
Appointed as of March 2012

# DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Our Articles of Association require that our Board of Directors shall consist of eleven members so long as the Special Share is outstanding. There are currently ten members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Francis Yuen, Gan Khai Choon, Kwek Leng Peck, Benny Goh and Hoh Weng Ming as its nominees. Mr. Han Yi Yong and Miss Wang Hong 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
GOH H Benny <sup>(1)</sup>	President and Director	2011
GAN Khai Choon <sup>(1)(4)</sup>	Director	1995
KWEK Leng Peck <sup>(1)(2)</sup>	Director	1994
YUEN Francis <sup>(1)</sup>	Director	2011
NEO Poh Kiat <sup>(1)(2)(3)</sup>	Director	2005
TAN Aik-Leang <sup>(1)(3)</sup>	Director	2005
Matthew RICHARDS <sup>(2)(3)</sup>	Director	2006
HOH Weng Ming <sup>(1)(4)</sup>	Director	2011
WANG Hong	Director	2011
HAN Yi Yong <sup>(1)</sup>	Director	2010
LEONG Kok Ho	Chief Financial Officer	2012
FOO Shing Mei Deborah	General Counsel	2007
Ira Stuart OUTERBRIDGE III	Secretary	2001

Mr. SAW Boo Guan and Mr CHING Yew Chye retired as directors of the Company at its Annual General Meeting on June 17, 2011. Mr. ZHANG Shi Yong and Mr. TAN Eng Kwee resigned as directors of the Company on July 15, 2011 and November 11, 2011 respectively.

<sup>(1)</sup> Also a Director of Yuchai.

<sup>(2)</sup> Member of the Compensation Committee.

<sup>(3)</sup> Member of the Audit Committee.

<sup>(4)</sup> Also a Director of HLGE.

# BOARD OF DIRECTORS

**Mr. Goh H Benny** was appointed President and a Director of the Company on September 14, 2011. He is also the Deputy Chairman of Yuchai. Mr. Goh has extensive experience in management, strategy and business turnarounds in the international arena. Mr. Goh was previously the Vice President & Managing Director for Ingersoll Rand's North Asia Climate Solutions business; and his career included stints with Trane Commercial Systems Asia, Ernst & Young and A.T. Kearney. Mr. Goh earned his MBA from the Harvard Graduate School of Business Administration in 1995 and an MA in physics from Oxford University in the United Kingdom in 1988. He also holds a Bachelor of Arts degree in Physics (Hons) from Oxford University, UK.

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

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

**Mr. Yuen Kin Pheng Francis** was appointed Chief Executive Officer and a director of Hong Leong Asia on May 18, 2011. He is a Director of the Company, HL Technology and Yuchai. Mr. Yuen's previous positions were as President of Ingersoll Rand's Climate Solutions Asia, and as President and Business Leader in Trane Commercial Systems Asia, a corporation within the Ingersoll Rand Group and President for Honeywell Asia-Pacific. Mr. Yuen holds a Bachelor of Business Administration degree (1st Class Honours) and a Master of Business

Administration degree from the National University of Singapore. He is also a graduate of the Wharton Advanced Management Program.

**Mr. Neo Poh Kiat** is a Director of the Company and Yuchai. He is Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd., a financial advisory firm in Singapore. Between 1976 and January 2005, he held senior managerial positions with companies in the Development Bank of Singapore group and United Overseas Bank Ltd. Mr. Neo is currently a director of Sing-Han Management Consulting (Shanghai) Limited, Asia Airfreight Terminal Co Ltd, Credit China Holdings Limited and Sing-Han International Financial Services Limited. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

**Mr. Tan Aik-Leang** is a Director of the Company and 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 is currently also a Director of the Risk Management Association, Hong Kong Chapter. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

**Mr. Matthew Richards** is a Director of the Company. Mr. Richards is currently a Director of Watiga & Co. Pty Ltd, an Australian incorporated company providing legal advisory services in corporate finance, private equity and corporate governance in Asia. Prior to this, Mr. Richards was the General Counsel and a Director of Quvat Management Pte. Ltd., the investment manager to the Quvat Capital Partners private equity funds investing in Indonesia, Singapore and Malaysia. Mr. Richards was in private practice in Singapore as an international lawyer with U.S. law firms between 1999 and 2007, and worked on a variety of capital markets, mergers and acquisitions and other corporate finance transactions throughout the Asian region. Mr. Richards holds a Graduate Diploma in Legal Practice, Bachelor of Laws and Bachelor of Asian Studies from the Australian National University, and

## BOARD OF DIRECTORS

is a graduate of the Australian Institute of Company Directors. Our Board of Directors has determined that Mr. Richards is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

**Ms. Wang Hong** was appointed a Director of the Company on July 15, 2011. She also sits on the boards of the State Holding Company, Coomber Investments Limited and Goldman Industrial Limited. She is currently the General Accountant and General Finance Manager of the State Holding Company. She holds a Bachelor Degree in Accounting from Northern Jiaotong University.

**Mr. Han Yi Yong** is a Director of the Company and Yuchai. He is also the Chief Executive Officer, 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.

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

## EXECUTIVE OFFICERS OF THE COMPANY

**Mr. Leong Kok Ho** was appointed Chief Financial Officer of the Company on January 9, 2012. Mr. Leong's previous positions was regional commercial manager for Parker Drilling Co. a Nasdaq listed company, Chief Financial Officer of KS Energy Services Limited, a company listed on the Main Board of the Singapore Exchange and Finance and Operation Manager for the Kuok Group of companies in China, Mr Leong holds a Bachelor of Accountancy from the National University of Singapore and an MBA from the University of Southern Queensland in Australia in 1999. He is a Certified Public Accountant (CPA) of Singapore and a Fellow Certified Public Accountant (FCPA) of Singapore.

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

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

# CORPORATE GOVERNANCE

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

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



## CORPORATE GOVERNANCE

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

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

## CORPORATE GOVERNANCE

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<ul style="list-style-type: none"> <li>At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US companies.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.</li> </ul>
<ul style="list-style-type: none"> <li>Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.</li> </ul>	<ul style="list-style-type: none"> <li>The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.</li> </ul>
<ul style="list-style-type: none"> <li>Each listed company must have an internal audit function.</li> </ul>	<ul style="list-style-type: none"> <li>We are a holding company and the majority of business is done at our main subsidiary, Guangxi Yuchai Machinery Company Limited ("Yuchai"). Our group transactions, fees and expenses are reviewed by the Internal Audit Department of Hong Leong Asia. In addition, Yuchai maintains an independent internal audit function, headed by an internal audit manager who reports to the Audit Committee of Yuchai's Board which approves the audit plans, reviews significant audit issues and monitors corrective actions taken by management.</li> </ul>

## CORPORATE GOVERNANCE

<p><b>Compensation Committee</b></p> <ul style="list-style-type: none"> <li>Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.</li> </ul>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities.</li> </ul>	
<ul style="list-style-type: none"> <li>These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.</li> </ul>
<p><b>Nominating/Corporate Governance Committee</b></p>	
<ul style="list-style-type: none"> <li>Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.</li> </ul>	<ul style="list-style-type: none"> <li>We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.</li> </ul>
<ul style="list-style-type: none"> <li>The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.</li> </ul>	
<p><b>Equity-Compensation Plans</b></p>	
<ul style="list-style-type: none"> <li>Shareholders must be given the opportunity to vote on all equity- compensation plans and material revisions thereto, with limited exceptions.</li> </ul>	<ul style="list-style-type: none"> <li>We intend to have our shareholders approve equity-compensation plans.</li> </ul>
<p><b>Corporate Governance Guidelines</b></p>	
<ul style="list-style-type: none"> <li>Listed companies must adopt and disclose corporate governance guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.</li> </ul>
<p><b>Code of Business Conduct and Ethics</b></p>	
<ul style="list-style-type: none"> <li>All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.</li> </ul>	<ul style="list-style-type: none"> <li>We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. The text of the Code is posted on our internet website at <a href="http://www.cylimited.com/invest_govt.asp">http://www.cylimited.com/invest_govt.asp</a>. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.</li> </ul>



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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited China Yuchai International Limited and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). China Yuchai International Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness at Yuchai has been identified and included in management's assessment. Management has identified a material weakness in the identification and elimination of intercompany transactions and balances at Yuchai.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of China Yuchai International Limited and its subsidiaries (the "Group") as of December 31, 2011 and 2010, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2011 financial statements and this report does not affect our report dated April 19, 2012, which expressed an unqualified opinion on those financial statements.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, China Yuchai International Limited and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

/s/ Ernst & Young LLP  
Singapore  
April 19, 2012

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited and subsidiaries (the "Group") as of December 31, 2011 and 2010, the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited and subsidiaries as of December 31, 2011 and December 31, 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 19, 2012, expressed an adverse opinion on the effectiveness of China Yuchai International Limited and subsidiaries' internal control over financial reporting.

/s/ Ernst & Young LLP  
Singapore  
April 19, 2012

# CONSOLIDATED INCOME STATEMENT

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

	<u>Note</u>	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
<b>Continuing operations</b>					
Sales of goods	7	13,139,578	16,138,580	15,378,190	2,440,363
Rendering of services	7	36,325	69,604	66,238	10,511
<b>Revenue</b>	7	13,175,903	16,208,184	15,444,428	2,450,874
Cost of sales (goods)		(10,612,260)	(12,112,215)	(11,966,496)	(1,898,962)
Cost of sales (services)		(17,825)	(87,038)	(35,653)	(5,658)
<b>Gross profit</b>		2,545,818	4,008,931	3,442,279	546,254
Other operating income	8.2a	93,668	129,075	102,403	16,250
Other operating expenses	8.2b	(16,113)	(41,447)	(29,325)	(4,654)
Research and development costs	8.1,8.3	(297,259)	(324,123)	(328,140)	(52,072)
Selling, distribution and administrative costs	8.1	(1,471,857)	(1,822,764)	(1,652,129)	(262,175)
<b>Operating profit</b>		854,257	1,949,672	1,535,088	243,603
Finance costs	8.4	(77,493)	(130,446)	(156,174)	(24,783)
Share of profit/(loss) of associates	5	2,954	(121)	1,519	241
Share of results of joint ventures	6	(16,000)	(53,902)	(81,151)	(12,878)
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	30	202,950	—	—	—
<b>Profit before tax from continuing operations</b>		966,668	1,765,203	1,299,282	206,183
Income tax expense	9	(147,223)	(327,946)	(226,780)	(35,988)
<b>Profit for the year from continuing operations</b>		819,445	1,437,257	1,072,502	170,195
<b>Discontinued operations</b>					
Profit after tax for the year from discontinued operations	10	13,022	12,655	—	—
<b>Profit for the year</b>		832,467	1,449,912	1,072,502	170,195
<b>Attributable to:</b>					
Owners of the parent		628,331	1,117,297	818,532	129,893
Non-controlling interests		204,136	332,615	253,970	40,302
		832,467	1,449,912	1,072,502	170,195

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



# CONSOLIDATED INCOME STATEMENT

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

	<u>Note</u>	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
		<u>Rmb</u>	<u>Rmb</u>	<u>Rmb</u>	<u>US\$</u>
<b>Earnings per share</b>	11				
For profit from continuing operations:					
- basic and diluted, profit from continuing operations attributable to owners of the parent		16.51	29.64	21.96	3.49
For profit for the year:					
- basic and diluted, profit for the year attributable to owners of the parent		16.86	29.98	21.96	3.49
Weighted average number of shares					
- basic and diluted		<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>

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)

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Profit for the year</b>	832,467	1,449,912	1,072,502	170,195
<b>Other comprehensive income/(loss)</b>				
Foreign currency translation	(11,201)	(22,084)	(3,112)	(494)
Share of other comprehensive income of associates	21,038	—	—	—
Others	(647)	—	—	—
Other comprehensive income/(loss) for the year, net of tax	<u>9,190</u>	<u>(22,084)</u>	<u>(3,112)</u>	<u>(494)</u>
<b>Total comprehensive income for the year, net of tax</b>	<u><u>841,657</u></u>	<u><u>1,427,828</u></u>	<u><u>1,069,390</u></u>	<u><u>169,701</u></u>
Attributable to:				
Owners of the parent	640,908	1,102,048	809,939	128,529
Non-controlling interests	<u>200,749</u>	<u>325,780</u>	<u>259,451</u>	<u>41,172</u>
	<u><u>841,657</u></u>	<u><u>1,427,828</u></u>	<u><u>1,069,390</u></u>	<u><u>169,701</u></u>

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)

	<u>Note</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	3,276,302	3,748,233	594,807
Investment properties	13	35,811	—	—
Prepaid operating leases	14	407,468	387,839	61,546
Goodwill	15	212,636	212,636	33,743
Intangible assets	16	13,389	24,754	3,928
Investment in associates	5	38,610	38,001	6,030
Investment in joint ventures	6	514,313	456,745	72,481
Other receivables	17	65,533	—	—
Deferred tax assets	9	294,934	359,332	57,022
Other investments		6,364	17,284	2,743
		<u>4,865,360</u>	<u>5,244,824</u>	<u>832,300</u>
<b>Current assets</b>				
Inventories	20	2,632,860	2,416,056	383,404
Trade and bills receivables	22	4,234,475	6,690,917	1,061,781
Prepayments		107,834	100,863	16,006
Other receivables	23	211,126	466,069	73,960
Income tax recoverable		3,964	—	—
Prepaid operating leases	14	11,004	11,292	1,792
Other current assets	21	118,650	96,222	15,269
Cash and cash equivalents	24	4,060,990	4,124,776	654,560
		<u>11,380,903</u>	<u>13,906,195</u>	<u>2,206,772</u>
<b>Total assets</b>		<u>16,246,263</u>	<u>19,151,019</u>	<u>3,039,072</u>

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	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2011 US\$'000
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Issued capital	25	1,724,196	1,724,196	273,613
Preference shares	25	21	21	3
Statutory reserves	27	292,064	297,109	47,148
Capital reserves		2,932	2,932	465
Retained earnings		3,178,910	3,626,714	575,523
Other components of equity		(100,176)	(108,769)	(17,261)
<b>Equity attributable to owners of the parent</b>		<b>5,097,947</b>	<b>5,542,203</b>	<b>879,491</b>
Non-controlling interests		1,687,980	1,807,958	286,905
<b>Total equity</b>		<b>6,785,927</b>	<b>7,350,161</b>	<b>1,166,396</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	18(b)	201,850	144,883	22,992
Other liabilities	18(a)	18,869	830	132
Deferred tax liabilities	9	77,274	100,739	15,986
Deferred grants	19	269,736	318,583	50,556
		<b>567,729</b>	<b>565,035</b>	<b>89,666</b>
<b>Current liabilities</b>				
Trade and other payables	28	7,902,317	7,234,151	1,147,986
Interest-bearing loans and borrowings	18(b)	423,543	3,551,848	563,642
Provision for taxation		204,850	142,752	22,653
Other liabilities	18(a)	9,743	—	—
Provision for product warranty	29	352,154	307,072	48,729
		<b>8,892,607</b>	<b>11,235,823</b>	<b>1,783,010</b>
Total liabilities		<b>9,460,336</b>	<b>11,800,858</b>	<b>1,872,676</b>
<b>Total equity and liabilities</b>		<b>16,246,263</b>	<b>19,151,019</b>	<b>3,039,072</b>

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

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

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 owners of the parent											
	Issued capital (Note 25)	Preference shares (Note 25)	Statutory reserves (Note 27)	Capital reserves	Retained earnings	Reserve of asset classified as held for sale	Foreign currency translation reserve	Performance shares reserve	Premium paid for acquisition of non-controlling interest	Total		
										Rmb'000	Rmb'000	Rmb'000
At January 1, 2010	1,724,196	36	291,686	2,942	2,125,059	(9,661)	(74,150)	(85)	(10,692)	4,049,331	1,360,459	5,409,790
Profit for the year	—	—	—	—	1,117,297	—	—	—	—	1,117,297	332,615	1,449,912
Other comprehensive income	—	—	—	—	—	—	(15,249)	—	—	(15,249)	(6,835)	(22,084)
Total comprehensive income for the year	—	—	—	—	1,117,297	—	(15,249)	—	—	1,102,048	325,780	1,427,828
Transfer to statutory reserves	—	—	378	—	(378)	—	—	—	—	—	—	—
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	(44,631)	(44,631)
Dividends declared (US\$ 0.25 per share) (Note 26)	—	—	—	—	(63,078)	—	—	—	—	(63,078)	—	(63,078)
Liquidation of subsidiaries	—	—	—	(10)	10	—	—	—	—	—	(2,943)	(2,943)
Non-controlling interests arising from increase in share capital of subsidiaries	—	—	—	—	—	—	—	—	—	—	48,000	48,000
Conversion of NCCPS	—	(15)	—	—	—	—	—	—	—	(15)	15	—
Conversion of RCPS B	—	—	—	—	—	—	—	—	—	—	1,300	1,300
Realisation of reserves upon disposal of asset classified as held for sale	—	—	—	—	—	9,661	—	—	—	9,661	—	9,661
At December 31, 2010	1,724,196	21	292,064	2,932	3,178,910	—	(89,399)	(85)	(10,692)	5,097,947	1,687,980	6,785,927

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 owners of the parent										
	Issued capital (Note 25)	Preference shares (Note 25)	Statutory reserves (Note 27)	Capital reserves	Retained earnings	Foreign currency translation reserve	Performance shares reserve	Premium paid for acquisition of non-controlling interest	Total	Non-controlling interests	Total equity
At January 1, 2011	1,724,196	21	292,064	2,932	3,178,910	(89,399)	(85)	(10,692)	5,097,947	1,687,980	6,785,927
Profit for the year	—	—	—	—	818,532	—	—	—	818,532	253,970	1,072,502
Other comprehensive income	—	—	—	—	—	(8,593)	—	—	(8,593)	5,481	(3,112)
Total comprehensive income for the year	—	—	—	—	818,532	(8,593)	—	—	809,939	259,451	1,069,390
Transfer to statutory reserves	—	—	5,045	—	(5,045)	—	—	—	—	—	—
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	(139,473)	(139,473)
Dividends declared (US\$ 1.50 per share) (Note 26)	—	—	—	—	(365,683)	—	—	—	(365,683)	—	(365,683)
At December 31, 2011	1,724,196	21	297,109	2,932	3,626,714	(97,992)	(85)	(10,692)	5,542,203	1,807,958	7,350,161
US\$'000	273,613	3	47,148	465	575,523	(15,550)	(14)	(1,697)	879,491	286,905	1,166,396

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)

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Operating activities</b>				
Profit before tax from continuing operations	966,668	1,765,203	1,299,282	206,183
Profit before tax from discontinued operations	14,321	12,655	—	—
Profit before tax	980,989	1,777,858	1,299,282	206,183
Non-cash adjustment to reconcile profit before tax to net cash flows				
Gain on acquisition of Guangxi Yulin Hotel Company in settlement of past loan	(202,950)	—	—	—
Allowance for doubtful debts (written back)/made (net)	(41,162)	(21,725)	2,343	372
Allowance for stock obsolescence made/(written back) (net)	154,700	(111,763)	(12,412)	(1,970)
Depreciation of property, plant and equipment and investment properties	277,332	275,136	301,557	47,853
Amortisation of prepaid operating leases	7,982	11,004	27,286	4,330
Dividend income from associates	(11,162)	—	(1,656)	(263)
Impairment of property, plant and equipment and prepaid operating leases	7,785	1,372	252	40
Write off of property, plant and equipment	5,723	2,447	159	26
Write (back)/off of trade and other payables	(23,649)	5,249	—	—
Write back of provision for impairment of receivables-Malkn	(4,895)	—	—	—
Write back of impairment of investment in joint ventures	—	(10,936)	—	—
Share of net loss of associates and joint ventures	13,046	54,023	79,632	12,637
Exchange loss/(gain) on financing activities	6,543	(19,975)	(1,599)	(254)
Loss on disposal of property, plant and equipment	8,618	33,670	9,830	1,560
Gain on disposal of prepaid operating leases	—	—	(10,678)	(1,694)
Gain on disposal of investment properties	—	—	(5,908)	(937)
Gain on disposal of associates	(1,906)	(707)	—	—
Gain on disposal of subsidiaries	—	(2,833)	—	—
Loss on disposal of other investment	—	261	—	—
Finance costs	77,493	130,446	156,174	24,783
Interest income	(31,576)	(61,719)	(53,159)	(8,436)
Profit from discontinued operations	(13,022)	(12,655)	—	—
Fair value gain on held for trading investment	—	(17,123)	16,104	2,556
Fair value gain on available for sale investment	—	—	(10,983)	(1,743)

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)

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Changes in working capital</b>				
(Increase)/decrease in inventories	(49,006)	(409,118)	229,216	36,374
Decrease/(increase) in trade and other receivables	290,601	(1,762,932)	(2,447,246)	(388,354)
Increase/(decrease) in trade and other payables	2,565,933	1,739,923	(1,004,343)	(159,379)
Decrease/(increase) in balances with related parties	24,953	90,243	(13,187)	(2,093)
Decrease/(increase) in balances with holding company	2,022	(8,406)	(21)	(3)
Decrease in development properties	5,393	33,747	2,952	468
Income taxes paid	(80,427)	(250,523)	(325,981)	(51,730)
<b>Net cash flows from / (used in) operating activities</b>	<u>3,969,358</u>	<u>1,464,964</u>	<u>(1,762,386)</u>	<u>(279,674)</u>
<b>Investing activities</b>				
Acquisition/additional investment in associates and joint ventures	(69,400)	(191,906)	(33,295)	(5,284)
Dividends received from associates	16,931	—	1,656	263
Dividends received from joint ventures	19,122	1,733	10,166	1,613
Interest received	31,578	61,719	53,159	8,436
Purchase of other investments	(82)	—	—	—
Proceeds from disposal of other investments	—	169	—	—
Payment for prepaid operating leases	(205,879)	(66,300)	(16,768)	(2,661)
Proceeds from disposal of prepaid operating leases	—	—	18,800	2,983
Additions of intangible asset	—	(13,389)	(11,365)	(1,804)
Proceeds from disposal of property, plant and equipment	64,745	30,410	150,139	23,826
Purchase of property, plant and equipment	(780,836)	(629,626)	(807,274)	(128,106)
Proceeds from disposal of a subsidiary, net of cash	—	1,902	—	—
Proceeds from disposal of assets classified as held for sale	—	302,655	—	—
Proceeds from disposal of associates	1,906	4,000	—	—
Proceeds from disposal of investment property	—	—	40,528	6,431
Acquisition of non-controlling interests	(29,998)	—	—	—
Proceeds from redemption of preference shares in an associate	551	—	—	—
Proceeds from government grants	150,917	112,592	71,015	11,269
<b>Net cash flows used in investing activities</b>	<u>(800,445)</u>	<u>(386,041)</u>	<u>(523,239)</u>	<u>(83,034)</u>

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)

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Financing activities</b>				
Dividends paid to non-controlling interests	(27,988)	(44,631)	(139,473)	(22,133)
Dividends paid to owners of the parent	(25,457)	(63,078)	(365,683)	(58,030)
Interest paid	(93,433)	(146,014)	(179,802)	(28,533)
Payment of finance lease liabilities	(5,014)	(7,240)	(27,751)	(4,404)
Proceeds from borrowings	998,402	472,620	3,547,962	563,026
Repayment of borrowings	(1,256,441)	(926,275)	(477,328)	(75,747)
Capital contributions from non-controlling interests	37,225	48,000	—	—
Fixed deposits pledged with banks for banking facilities	(19)	(10)	26	4
Proceeds from sale and leaseback arrangement	40,000	—	—	—
<b>Net cash flows (used in) / from financing activities</b>	<u>(332,725)</u>	<u>(666,628)</u>	<u>2,357,951</u>	<u>374,183</u>
Net increase in cash and cash equivalents	2,836,188	412,295	72,326	11,475
Cash and cash equivalents at 1 January	823,695	3,657,981	4,060,990	644,438
Effect of exchange rate changes on balances in foreign currencies	(1,902)	(9,286)	(8,540)	(1,353)
<b>Cash and cash equivalents at December 31</b>	<u>3,657,981</u>	<u>4,060,990</u>	<u>4,124,776</u>	<u>654,560</u>

## Significant non-cash investing and financing transactions

For the years ended December 31, 2009, December 31, 2010 and December 31, 2011, certain customers settled their debts with trade bills amounting to Rmb 10,552 million, Rmb 9,232 million and Rmb 13,879 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 and its subsidiaries (the "Group") for the year ended December 31, 2011 were authorised for issue in accordance with a resolution of the directors on April 19, 2012. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office is located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581.

### 1.2 Investment in Guangxi Yuchai Machinery Company Limited

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

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

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

Yuchai established three direct subsidiaries, Yuchai Machinery Monopoly Company Limited ("YMMC"), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ("YAMC") (previously known Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited) and Yuchai Express Guarantee Co., Ltd. ("YEGCL"). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants' purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As at December 31, 2011, Yuchai held an equity interest of 71.83%, 97.14% and 100.0% respectively in these companies. As at December 31, 2011, YMMC had direct controlling interests in twenty nine subsidiaries (2010: 31 subsidiaries) which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 1. Corporate information (cont'd)

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

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

#### (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. or Geely and Zhejiang Yinlun Machinery Company Limited or Yinlun to consider establishing a proposed company to develop diesel engines for passenger cars in China. Yuchai was to be the largest shareholder followed by Geely as the second largest shareholder.

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

#### (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 Co., Ltd. ("Yuchai Remanufacturing") in Suzhou, Jiangsu province to provide remanufacturing services for and relating to Yuchai's diesel engines and components and certain Caterpillar's diesel engines and components. The registered capital of the Yuchai Remanufacturing is US\$ 200,000,000. Yuchai holds 51% and Caterpillar holds the remaining 49% in the joint venture. Yuchai and Caterpillar holds joint control in governing the financial and operating policies of the Company and Caterpillar has veto rights in relation to certain key decisions despite having only 49% voting rights. As such, Yuchai continued to account for Yuchai Remanufacturing as a Joint Venture.

#### (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. ("CIMC") and Chery Automobile Co., Ltd. ("Chery") (collectively referred to as "CIMC-Chery"), and Shenzhen City Jisi Investment Management Co., Ltd. ("Jisi") incorporated Y & C Engine Co., Ltd. ("Y & C") in Wuhu, Anhui province to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L including the engines of YC6K series. The registered capital of the Y & C is Rmb 500,000,000. Yuchai and Jirui United each hold 45% in the joint venture with Jisi holding the remaining 10%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 1. Corporate information (cont'd)

### 1.3 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 Company. Based on the Company's shareholdings and representation in the board of directors of TCL, management concluded that the Company had the ability to exercise significant influence over the operating and financial policies of TCL. Consequently, the Company's consolidated financial statements include the Company's share of the results of TCL, accounted for under the equity method. The Company acquired an additional 1% of the ordinary shares of TCL in September 2005. As a result of the rights issue of 87,260,288 rights shares on February 16, 2006, the Company's equity interest in TCL increased to 19.4%.

On August 15, 2006, the Company exercised its right to convert all of its 52,933,440 convertible bonds into 529,334,400 new ordinary shares in the capital of TCL. Upon the issue of the new shares, the Company's interest in TCL has increased to 36.6% of the total issued and outstanding ordinary shares. During the year ended December 31, 2007, the Company did not acquire new shares in TCL. However, as a result of conversion of convertible bonds into new ordinary shares by TCL's third party bondholders, the Company's interest in TCL was diluted to 34.4%. On September 2, 2008, 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 held for sale, the Group ceased to apply the equity method and the investment in TCL is measured at the lower of the carrying amount and fair value less cost to sell and classified as held-for-sale.

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

As of December 31, 2011, the Company's shareholding interest in TCL remained at 12.2%. The Company's investment in TCL was classified as held for trading, and was measured at fair value with changes in fair value recognised in other income in the income statement.

# 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

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

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

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

The Company considers its ability to exercise the potential voting privileges in the RCPS instruments in HLGE when assessing the entity's power to govern the financial and operating policies of HLGE and concluded that the Company has the ability to control HLGE. Consequently, the Company consolidated HLGE with effect from November 15, 2006.

As at December 31, 2010, three directors out of seven directors on the board of HLGE were appointed by the Company. As at December 31, 2011, four directors, including the chairman, out of eight directors on the board of HLGE were appointed by the Company.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

### 2.3 Summary of significant accounting policies

#### (a) Business combinations and goodwill

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

# 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)

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

#### (b) Investments in associates

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

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



# 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 (cont'd)

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

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

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

The financial statements of the associate are prepared for the same reporting period as the Group. 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 recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of profit of associates" in the income statement.

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

#### (c) Investments in joint ventures

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

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

# 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) Investments in joint ventures (cont'd)

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

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

The financial statements of the joint venture are prepared for the same reporting period as the Group. 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 recognise an additional impairment loss on its investment in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the "share of results of joint ventures" in the income statement.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

#### (e) Foreign currency translation

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

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

#### **Transactions and balances**

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

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

All differences arising on settlement or translation of monetary items are taken to the income statement 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 recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items 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 recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

#### **Group companies**

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

# 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)

For the US dollar convenience translation amounts included in the accompanying consolidated financial statements, the Rmb equivalent amounts have been translated into US dollars at the rate of Rmb 6.3016 = US\$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on March 1, 2012. No representation is made that the Rmb amounts could have been, or could be, converted into US dollars at that rate or at any other rate prevailing on March 1, 2012 or any other date.

#### (f) Revenue recognition

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

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

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

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

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

##### ***Interest income***

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

# 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 (cont'd)

##### **Rental income**

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

##### **Dividends**

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

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

#### (g) Taxes

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

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

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

##### **Deferred tax**

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

Deferred tax liabilities are recognised 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)

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

##### *Deferred tax (cont'd)*

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

- 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 recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

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

##### **Sales tax**

Revenues, expenses and assets are recognised 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 recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

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

#### (h) Government grants

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

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments.

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

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

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

##### **Financial assets**

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

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

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

##### **Financial assets (cont'd)**

##### **Initial recognition and measurement (cont'd)**

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

##### **Subsequent measurement**

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

##### **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 changes in fair value recognised in finance income or finance cost in the income statement.

The Group has designated its remaining 12.2% shareholding interest in TCL as financial assets at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When 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 these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.



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

##### Financial assets (cont'd)

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

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

The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs 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 amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

The Group did not have any held-to-maturity investments during the years ended December 31, 2011 and 2010.

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

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for sale 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, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale 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 and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

##### **Financial assets (cont'd)**

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

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 asset is recognised to the extent of the Group's continuing involvement in the asset.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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 effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

##### Impairment of financial assets (cont'd)

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

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

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

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

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

##### Financial liabilities

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### (j) 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 acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Financial liabilities are designated upon initial recognition as fair value through profit and loss only if criteria of 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 amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

##### **Financial liabilities (cont'd)**

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

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

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

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

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

# 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

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

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

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

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

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

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

The Group capitalises 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 capitalised.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### (l) Leases

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

#### **Prepaid operating lease**

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

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

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

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

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

#### **Sale and leaseback**

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### (m) Borrowing costs

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

A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining the asset, the amount of borrowing costs eligible for capitalisation 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 capitalisation is by applying a capitalisation rate to the expenditures on that asset. The capitalisation 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 capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

#### (n) Research and development expenses

Research costs are expensed as incurred. The Group received research and development subsidies of Rmb 46,080 and Rmb 22,090 (US\$ 3,505) for the years ended December 31, 2010 and 2011 respectively.

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

Development expenditures, on an individual project, are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete, and the ability to measure reliably the expenditures during development.

Capitalised development expenditures are stated at cost less accumulated amortisation and impairment losses. During the period of development, the asset is tested for impairment annually. As of December 31, 2011, capitalised development expenditures are not amortised because the intangible asset has not been completed and available for use or sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### (o) Inventories

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

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

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

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

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 to sell, recent market transactions are taken into account, if available. 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 subsidiaries or other available fair value indicators.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

##### **Goodwill**

Goodwill is tested for impairment annually (as at December 31) 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 recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

##### **Intangible assets**

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

#### (q) Cash and cash equivalents

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

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

#### (r) Provisions

##### **General**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### (r) Provisions (cont'd)

##### *Product warranty*

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

#### (s) Convertible preference shares

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

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

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

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

#### (t) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at historical cost less provisions for depreciation and impairment. Disclosures about the cost basis and depreciation rates are disclosed in Note 2.3 (k).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

# 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) Investment properties (cont'd)

Transfers are made to or from investment property only when there is a change in use. The investment property has been disposed of during the 2011 financial year.

#### (u) Development properties

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

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

#### (v) Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
  - (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

# 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) Related parties (cont'd)

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

#### (w) Segment reporting

For management purposes, the Group is organised 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 33, 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 accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective January 1, 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective February 1, 2011
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective January 1, 2011
- Improvements to IFRSs (May 2010)

# 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)

The adoption of the standards or interpretations is described below:

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

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### **IAS 32 Financial Instruments: Presentation (Amendment)**

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

#### **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)**

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

#### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- **IFRS 3 Business Combinations:** The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- The amendments to IFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Group did not early adopt the amendments.

# 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)

#### Improvements to IFRSs (cont'd)

- *IFRS 7 Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 34.
- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group did not early adopt the amendments.

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

- *IFRS 3 Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- *IFRS 3 Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

### 2.5 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group expects that the adoption of the standards and interpretations below will have no material impact on the financial statements in the period of initial application.

#### **IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.



# 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)

#### **IAS 12 Income Taxes – Recovery of Underlying Assets**

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012. This amendment will not have material impact on the Group after initial application.

#### **IAS 19 Employee Benefits (Amendment)**

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. This amendment will have no impact on the Group after initial application.

#### **IAS 27 Separate Financial Statements (as revised in 2011)**

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. This amendment will have no impact on the Group after initial application.

#### **IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. This amendment will have no impact on the Group after initial application.

#### **IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

# 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: Classification and Measurement***

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### **IFRS 10 *Consolidated Financial Statements***

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance. Currently, the impact is not known or reasonably estimable.

#### **IFRS 11 *Joint Arrangements***

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group has already adopted equity method to account for its interest in joint ventures. The application of this new standard will not impact the financial position of the Group.

#### **IFRS 12 *Disclosure of Involvement with Other Entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

# 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 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013. The amendment has no material impact on the Group's financial position or performance.

#### Improvements to IFRSs (issued in June 2011)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2013. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 1 First Time Adoption of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

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

## 3. Significant accounting judgments, estimates and assumptions

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

### 3.1 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 discussed 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 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)

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

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

An 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 to sell and its value in use. The Group's impairment test for goodwill is based on value calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next eight years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 15.

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

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

Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The carrying amounts of property, plant and equipment as of December 31, 2010 and December 31, 2011 are Rmb 3,276,302 and Rmb 3,748,233 (US\$ 594,807) respectively.

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

An impairment loss of Rmb 252 (US\$ 40) (2010: Rmb 1,372; 2009: Rmb 7,785) was charged to the consolidated income statement under cost of sales, selling, general and administrative expenses for the Group's property, plants and equipment.

The impairment for 2010 and 2011 was due to assets that were not in use.

#### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2010 and 2011 are Rmb 294,934 and Rmb 359,332 (US\$ 57,022) 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)

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

#### *Deferred tax assets (cont'd)*

The Group has unrecognised tax loss carried forward amounting to Rmb 413,995 and Rmb 413,825 (US\$ 65,670) as of December 31, 2010 and 2011 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by Rmb 70,473 (US\$11,183) for year ended December 31, 2011 (2010: Rmb 70,685).

#### *Fair value of financial instruments*

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

#### *Provision for product warranty*

The Group recognises a provision for product warranty in accordance with the accounting policy stated on Note 2.3 (r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2010 and 2011 were Rmb 352,154 and Rmb 307,072 (US\$ 48,729) respectively.

#### *Withholding tax*

The China's Unified Enterprise Income Tax Law ("CIT law") also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognise a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of December 31, 2010 and 2011 are Rmb 76,792 and Rmb 100,284 (US\$ 15,914) 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.

#### *De-recognition of bills receivable*

The Group sells bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognised, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 22.

# 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 Estimates and assumptions (cont'd)

#### *Inventory provision*

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2010 and 2011 were Rmb 171,432 and Rmb 150,477 (US\$ 23,879) respectively.

#### *Accounts receivable provisions*

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2010 and 2011 were Rmb 87,335 and Rmb 75,155 (US\$ 11,927) respectively.

#### *Development costs*

Development costs are capitalised in accordance with the accounting policy in Note 2.3(n). Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation from the project, discount rate to be applied and the expected period of benefits. The carrying amount of capitalised development costs as of December 31, 2010 and 2011 were Rmb 13,389 and Rmb 24,754 (US\$ 3,928) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4. Investments in subsidiaries

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2010	31.12.2011
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited	People's Republic of China	74.2	74.2
Guangxi Yuchai Machinery Monopoly Development Company Limited	People's Republic of China	54.9	54.9
Xiamen Yuchai Diesel Engines Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited <sup>(1)</sup>	People's Republic of China	39.7	39.7
Zhejiang Yuchai Sanli Engine Company Limited <sup>(1)</sup>	People's Republic of China	39.7	39.7
HL Global Enterprises Limited <sup>(2)</sup>	Singapore	47.4	49.4

<sup>(1)</sup> The Company considers these companies as subsidiaries as it is able to govern the financial and operating policies of these companies through Yuchai's equity interest and its ability to control the companies' equity interest.

<sup>(2)</sup> During the year, the Company converted 35,149,000 (2010: 33,891,000) of RCPS B shares into HLGE's ordinary shares. As a result, the Company's interest in HLGE increased to 49.4% (2010: 47.4%). Having regard to the potential voting rights attributable to the RCPS in HLGE, the Company considers HLGE a subsidiary as it is able to govern the financial and operating policies of HLGE.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. Investment in associates

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

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Initial cost	22,797	22,797	3,618
Share of post acquisition earnings At January 1	19,745	20,331	3,226
Share of results, net of tax	(121)	1,519	241
Disposal of associate	707	—	—
At January 1/December 31	<u>20,331</u>	<u>21,850</u>	<u>3,467</u>
Share of reserves	<u>(4,518)</u>	<u>(6,646)</u>	<u>(1,055)</u>
Investment in associates	<u>38,610</u>	<u>38,001</u>	<u>6,030</u>

Details of the associates are as follows:

<u>Name of company</u>	<u>Principal activities</u>	<u>Place of incorporation/ business</u>	<u>Group's effective equity interest</u>	
			<u>31.12.2010</u> %	<u>31.12.2011</u> %
<b>Held by subsidiaries:</b>				
Scientex Park (M) Sdn Bhd <sup>(1)</sup>	Property investment and development	Malaysia	13.3	13.8
Sinjori Sdn Bhd <sup>(1)</sup>	Property investment and development	Malaysia	13.3	13.8
Yuchai Quan Xing Co., Ltd. <sup>(2)</sup>	Manufacture spare part and sales of auto spare part, diesel engine & spare part, metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	People's Republic of China	14.8	14.8
Yuchai Property Management Co., Ltd. <sup>(3)</sup>	Property management	People's Republic of China	22.3	22.3

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

<sup>(2)</sup> The Company has significant influence in this entity through YAMC who held direct equity interests of 20% interest in this entity.

<sup>(3)</sup> The Company has significant influence in this entity through YAMC who held direct equity interests of 30% interest in this entity.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Assets and liabilities</b>			
Total assets	174,982	177,110	28,106
Total liabilities	34,739	39,510	6,270
Net assets	<u>140,243</u>	<u>137,600</u>	<u>21,836</u>
	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Results</b>			
Revenue	163,716	105,855	19,056
Profit / (loss) after taxation	<u>2,236</u>	<u>(719)</u>	<u>790</u>

## 6. Investment in joint ventures

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Unquoted equity shares, at cost	650,454	683,749	108,504
At January 1	(83,580)	(133,143)	(21,128)
Share of results after tax <sup>(1)</sup>	(53,902)	(81,151)	(12,878)
Dividend received	(1,733)	(10,166)	(1,613)
Write-back of impairment	10,936	—	—
Others	—	(2,305)	(366)
Translation adjustment	<u>(4,864)</u>	<u>1,354</u>	<u>215</u>
At January 1/December 31	(133,143)	(225,411)	(35,770)
Share of post acquisition retained earnings	<u>(2,998)</u>	<u>(1,593)</u>	<u>(253)</u>
Investment in joint ventures	<u>514,313</u>	<u>456,745</u>	<u>72,481</u>

In 2011, the Group made additional investment of Rmb 33,295 in Yuchai Remanufacturing. The Group's percentage of interest in Yuchai Remanufacturing remains unchanged.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

<sup>(1)</sup> Share of results after tax is composed of:

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Share of joint venture losses	(11,375)	(12,639)	(2,006)
Impairment of investment in joint ventures	(2,117)	(53,540)	(8,496)
Fair value adjustments arising from purchase price allocation for PPEs in joint ventures	(40,410)	(14,972)	(2,376)
Share of results after tax	<u>(53,902)</u>	<u>(81,151)</u>	<u>(12,878)</u>

The Group has interests in the following joint ventures:

<u>Name of company</u>	<u>Percentage of interest</u>		<u>Principal activities</u>
	<u>31.12.2010</u>	<u>31.12.2011</u>	
	%	%	
<b>Held by subsidiaries:</b>			
Augustland Hotel Sdn Bhd	45	45	Hotel development and operation
Copthorne Hotel Qingdao Co., Ltd.	60	60	Owns and operates a hotel in Qingdao, PRC
Shanghai Equatorial Hotel Management Co., Ltd.	49	49	Hotel management and hotel consultancy
Shanghai International Equatorial Hotel Co., Ltd.	50	50	Owns and operates a hotel and club in Shanghai, PRC
Y&C Engine Co., Ltd.	45	45	Heavy duty diesel engine
Yuchai Remanufacturing Services Co., Ltd.	51	51	Remanufacture and sale of automobile parts, diesel engines and components

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

# 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 summarised financial information on the Group's share is as follows:

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
<b>Assets and liabilities</b>			
Current assets	197,526	269,293	42,734
Non-current assets	406,166	497,520	78,951
Current liabilities	145,808	152,237	24,158
Non-current liabilities	78,803	226,192	35,893
Net assets	<u>379,081</u>	<u>388,384</u>	<u>61,634</u>
	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Results</b>			
Revenue	110,886	150,161	33,706
Expenses	(118,353)	(158,130)	(35,517)
Taxation	(471)	(3,406)	(195)
Loss after taxation	<u>(7,938)</u>	<u>(11,375)</u>	<u>(2,006)</u>

## 7. Revenue

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Sale of goods	13,139,578	16,138,580	15,378,190	2,440,363
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	26,268	41,948	61,813	9,809
Revenue from sale of development properties	6,744	24,278	3,821	606
Rental income	3,313	3,378	604	96
	<u>36,325</u>	<u>69,604</u>	<u>66,238</u>	<u>10,511</u>
<b>Revenue</b>	<u>13,175,903</u>	<u>16,208,184</u>	<u>15,444,428</u>	<u>2,450,874</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8.1 Depreciation and amortisation, sales commissions and shipping and handling expenses

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

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Cost of goods sold	180,043	193,504	234,486	37,210
Research and development expenses	22,175	22,253	24,202	3,841
Selling, general and administrative expenses	83,096	70,383	70,155	11,132
	<u>285,314</u>	<u>286,140</u>	<u>328,843</u>	<u>52,183</u>

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

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Selling, general and administrative expenses	<u>79,129</u>	<u>160,283</u>	<u>113,322</u>	<u>17,983</u>

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

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Selling, general and administrative expenses	<u>215,621</u>	<u>248,790</u>	<u>193,570</u>	<u>30,718</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8.2 (a) Other operating income

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	Rmb'000	Rmb'000	Rmb'000	US\$'000
Interest income	31,576	61,719	53,159	8,436
Foreign exchange gain, net	—	19,975	1,599	254
Dividend income from associates	11,162	—	1,656	263
Gain on disposal of associates	1,906	707	—	—
Gain on disposal of subsidiaries	—	2,833	—	—
Gain on disposal of prepaid operating leases	—	—	10,678	1,694
Fair value gain on held for trading investments	—	17,123	—	—
Fair value gain on available-for-sale investment	—	—	10,983	1,743
Gain on disposal of investment properties	—	—	5,908	937
Gain on assignment of debts	5,657	—	—	—
Write-back of impairment of receivables	4,895	—	—	—
Write-back of trade and other payables	23,649	—	—	—
Write-back of impairment of investment in joint ventures	—	10,936	—	—
Government grant income	14,823	11,129	18,420	2,923
Others, net	—	4,653	—	—
	<u>93,668</u>	<u>129,075</u>	<u>102,403</u>	<u>16,250</u>

## 8.2 (b) Other operating expenses

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	Rmb'000	Rmb'000	Rmb'000	US\$'000
Foreign exchange loss, net	(6,543)	—	—	—
Loss on disposal of property, plant and equipment	(8,618)	(33,670)	(9,830)	(1,560)
Fair value loss on held for trading investment	—	—	(16,104)	(2,556)
Write off of trade and other payables	—	(5,249)	—	—
Others, net	(952)	(2,528)	(3,391)	(538)
	<u>(16,113)</u>	<u>(41,447)</u>	<u>(29,325)</u>	<u>(4,654)</u>

## 8.3 Research and development costs

Research and development costs recognised as an expense in the income statement amount to Rmb 328,140 (US\$ 52,072) (2010: Rmb 324,123; 2009: Rmb 297,259).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8.4 Finance costs

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	Rmb'000	Rmb'000	Rmb'000	US\$'000
Interest expense for:				
Bank term loans	31,382	31,302	33,693	5,347
Finance lease	1,237	1,649	—	—
Bills discounting	60,723	109,260	73,651	11,688
Corporate bonds	(3,332)	—	64,175	10,184
Bank charges	2,401	2,911	6,869	1,089
Less:				
Borrowing costs capitalised	(14,918)	(14,676)	(22,214)	(3,525)
	<u>77,493</u>	<u>130,446</u>	<u>156,174</u>	<u>24,783</u>

The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.43% (2010: 5.00%; 2009: 4.56%), which is the effective interest rate of the borrowings.

## 8.5 Staff costs

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	Rmb'000	Rmb'000	Rmb'000	US\$'000
Wages and salaries	763,483	874,129	741,036	117,595
Contribution to defined contribution plans <sup>(i)</sup>	134,017	189,564	240,590	38,179
Retrenchment costs	38	—	—	—
Executive bonuses	45,182	98,239	67,347	10,687
Staff welfare	47,439	56,780	59,142	9,385
Others	5,369	1,412	1,888	300
	<u>995,528</u>	<u>1,220,124</u>	<u>1,110,003</u>	<u>176,146</u>

Note:

- <sup>(i)</sup> As stipulated by the regulations of the PRC, Yuchai and its subsidiaries participate in defined contribution retirement plans organised by Guangxi Regional Government and Beijing City Government for its staff. All staff are entitled to an annual pension equal to a fixed proportion of their final basic salary amount at their retirement date. For the years ended December 31, 2011, 2010 and 2009, Yuchai and its subsidiaries were required to make contributions to the retirement plan at a rate of 20.0% of the basic salary of their staff. Expenses incurred in connection with the plan were Rmb 239,253 (US\$ 37,967) (2010: Rmb 187,900; 2009: Rmb 124,257).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 9. Income tax

Income tax expense in the consolidated income statement consists of:

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
<b>Current income tax:</b>				
Current income tax charge	222,047	332,524	266,044	42,218
Adjustments in respect of current income tax of previous year	5,999	3,257	1,607	256
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	(79,632)	(5,400)	(40,871)	(6,486)
Adjustments in respect of deferred tax of previous year	(1,191)	(2,435)	—	—
Income tax expense reported in the income statement	<u>147,223</u>	<u>327,946</u>	<u>226,780</u>	<u>35,988</u>

Income tax expense reported in the consolidated income statement 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, 2009, 2010 and 2011 for the following reasons:

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Accounting profit before tax from continuing operations	966,668	1,765,203	1,299,282	206,183
Computed tax expense of 15%	145,000	264,780	194,892	30,927
Adjustments resulting from:				
Non-deductible expenses	808	10,432	7,298	1,158
Tax-exempt income	(43,143)	(2,994)	(310)	(49)
Utilisation of deferred tax benefits previously not recognised	165	(1,792)	—	—
Deferred tax benefits not recognised	4,968	3,381	1,818	288
Tax credits for R&D expense	(14,563)	(17,556)	(26,625)	(4,225)
Tax rate differential	33,516	25,027	24,070	3,820
Underprovision in respect of prior years				
- current	5,999	3,257	1,607	256
- deferred	(1,191)	(2,435)	—	—
Withholding tax expense	15,664	45,846	23,492	3,728
Others	—	—	538	85
Total	<u>147,223</u>	<u>327,946</u>	<u>226,780</u>	<u>35,988</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 9. Income tax (cont'd)

### Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated income statement			
	31.12.2010	31.12.2011	31.12.2011	31.12.2009	31.12.2010	31.12.2011	31.12.2011
	Rmb'000	Rmb'000	US\$'000	Rmb'000	Rmb'000	Rmb'000	US\$'000
<b>Deferred tax liabilities</b>							
Accelerated tax depreciation	(42)	(42)	(7)	—	347	—	—
Unremitted earnings from overseas source income	(440)	(422)	(66)	—	—	—	—
Expenditure currently deferred for tax purpose	—	9	1	—	100	—	—
PRC withholding tax on dividend income	(76,792)	(100,284)	(15,914)	(15,664)	(45,846)	(23,492)	(3,728)
	<u>(77,274)</u>	<u>(100,739)</u>	<u>(15,986)</u>	<u>(15,664)</u>	<u>(45,399)</u>	<u>(23,492)</u>	<u>(3,728)</u>
<b>Deferred tax assets</b>							
Accelerated accounting depreciation	8,418	7,523	1,194	1,025	(1,090)	(895)	(142)
Write down of inventories	36,104	33,259	5,278	14,987	(9,086)	(2,845)	(451)
Allowance for doubtful accounts	9,872	10,152	1,611	(5,861)	(5,168)	280	44
Accruals	192,173	230,968	36,652	45,526	71,242	38,795	6,156
Tax value of loss carried forward	2,480	830	132	(1,132)	1,307	(1,685)	(267)
Deferred income	35,669	69,014	10,952	33,395	(5,643)	33,345	5,292
Others	10,218	7,586	1,203	8,547	1,672	(2,632)	(418)
	<u>294,934</u>	<u>359,332</u>	<u>57,022</u>	<u>96,487</u>	<u>53,234</u>	<u>64,363</u>	<u>10,214</u>

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 9. Income tax (cont'd)

### Deferred tax (cont'd)

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 us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company recognises a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. As at December 31, 2011, the provision for withholding tax payable was Rmb 100,284 (US\$ 15,914) (2010: Rmb 76,792).

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Deferred tax assets	294,934	359,332	57,022
Deferred tax liabilities	(77,274)	(100,739)	(15,986)
	<u>217,660</u>	<u>258,593</u>	<u>41,036</u>

## 10. Discontinued operations

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

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

On July 7, 2010, TCL made payment of cash distribution to shareholders pursuant to the Capital Reduction Exercise. Subsequent to the cash distribution, the Company began to sell its shares in TCL in the market. As of December 31, 2010, 580,253,000 shares in TCL have been disposed of and the Company has recognised a gain on disposal of TCL shares of Rmb 12,655. There were no TCL shares being disposed of during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 10. Discontinued operations (cont'd)

Upon the disposal of TCL shares, the Company's shareholding interest in TCL has reduced from 34.4% to 12.2%. Meanwhile, the Company's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2011, the Company does not exercise significant influence over the operating and financial policies of TCL. The Company's investment in TCL is classified as held for trading investment (Note 21) as they are held for the purpose of selling in the near term. The Company's investment in TCL is measured at fair value with changes in fair value recognised in other operating income/(expenses) in the income statement.

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Profit from discontinued operations:				
- Profit before tax	14,321	—	—	—
- Gain on disposal	—	12,655	—	—
- Taxation	(1,299)	—	—	—
	<u>13,022</u>	<u>12,655</u>	<u>—</u>	<u>—</u>

The net cash flows incurred by TCL are as follows:

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Operating	—	—	—	—
Investing	—	302,655	—	—
Financing	—	—	—	—
	<u>—</u>	<u>302,655</u>	<u>—</u>	<u>—</u>

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb</u>	<u>Rmb</u>	<u>Rmb</u>	<u>US\$</u>
Earnings per share:				
Basic, from discontinued operation	0.35	0.34	—	—
Diluted, from discontinued operation	<u>0.35</u>	<u>0.34</u>	<u>—</u>	<u>—</u>

## 11. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to owners 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)

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

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

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Net profit attributable to owners of the parent from continuing operations	615,309	1,104,642	818,532	129,893
Net profit attributable to owners of the parent from discontinued operations	<u>13,022</u>	<u>12,655</u>	<u>—</u>	<u>—</u>
<b>Net profit attributable to owners of the parent for basic earnings</b>	<u>628,331</u>	<u>1,117,297</u>	<u>818,532</u>	<u>129,893</u>
Weighted average number of ordinary shares for basic earnings per share	<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>	<u>37,267,673</u>

There were no potentially dilutive common shares in any of the years ended December 31, 2011, 2010 and 2009.

To calculate earnings per share amounts for the discontinued operation (see Note 10), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used:

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Net profit attributable to owners of the parent from discontinued operations for basic and diluted earnings per share calculations	<u>13,022</u>	<u>12,655</u>	<u>—</u>	<u>—</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 12. Property, plant and equipment

	Freehold land Rmb'000	Leasehold land, buildings & improvements Rmb'000	Construction -in-progress Rmb'000	Plant and machinery Rmb'000	Office furniture, fittings and equipment Rmb'000	Motor and transport vehicles Rmb'000	Total Rmb'000
<b>Cost:</b>							
<b>At January 1, 2010</b>	594	1,353,559	610,461	2,723,031	108,960	84,801	4,881,406
Additions	—	75,669	517,750	24,251	9,092	17,543	644,305
Disposals	—	(43,969)	—	(48,126)	(10,189)	(8,406)	(110,690)
Transfers	—	202,558	(540,115)	315,263	22,053	241	—
Write-off	—	(456)	(16,183)	(5,792)	—	(17)	(22,448)
Translation difference	40	242	(1,437)	771	528	(35)	109
<b>At December 31, 2010 and January 1, 2011</b>	634	1,587,603	570,476	3,009,398	130,444	94,127	5,392,682
Additions	—	11,965	845,870	43,375	9,768	20,786	931,764
Disposals	—	(157,398)	—	(78,276)	(9,657)	(6,605)	(251,936)
Transfers	—	75,534	(538,332)	450,566	10,755	1,477	—
Write-off	—	(174)	(2,321)	(7,985)	(4,722)	—	(15,202)
Translation difference	(38)	1,723	—	571	(68)	(36)	2,152
<b>At December 31, 2011</b>	596	1,519,253	875,693	3,417,649	136,520	109,749	6,059,460
<b>Depreciation and impairment:</b>							
<b>At January 1, 2010</b>	594	311,452	27,351	1,446,783	75,791	44,266	1,906,237
Charge for the year	—	49,360	—	206,236	11,420	7,428	274,444
Disposals	—	(2,074)	—	(29,496)	(8,410)	(6,301)	(46,281)
Write-off	—	(129)	(16,183)	(3,672)	—	(17)	(20,001)
Impairment loss	—	—	—	1,372	—	—	1,372
Translation difference	40	(108)	—	450	240	(13)	609
<b>At December 31, 2010 and January 1, 2011</b>	634	358,501	11,168	1,621,673	79,041	45,363	2,116,380
Charge for the year	—	53,696	—	222,385	15,151	9,962	301,194
Disposals	—	(41,484)	—	(37,590)	(8,488)	(4,147)	(91,709)
Write-off	—	(87)	(2,321)	(7,964)	(4,671)	—	(15,043)
Impairment loss	—	—	(3,102)	3,275	—	79	252
Translation difference	(38)	359	—	80	(227)	(21)	153
<b>At December 31, 2011</b>	596	370,985	5,745	1,801,859	80,806	51,236	2,311,227
<b>Net book value:</b>							
At December 31, 2010	—	1,229,102	559,308	1,387,725	51,403	48,764	3,276,302
At December 31, 2011	—	1,148,268	869,948	1,615,790	55,714	58,513	3,748,233
US\$'000	—	182,219	138,053	256,409	8,841	9,285	594,807

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The accumulated impairment loss includes impairment of buildings in Yulin hotel and Guilin office building. The recoverable amounts of the buildings have been determined based on fair value less cost to sell. Fair values are determined using a market comparison and income approach. On April 27, 2011, Guangxi Yulin Hotel Company Limited entered into a sale and purchase agreement with a third party to sell its Guilin office building for a total consideration of Rmb 120 million. Upon the disposal of Guilin office building, an accumulated impairment loss of Rmb 26,485 was included in the determination of loss on disposal.

### Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2011 was Rmb 22,214 (US\$ 3,525) (2010: Rmb 14,676). The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.43% (2010: 5.00%) which is the effective interest rate of the specific and any applicable general borrowings that is used for the purpose of obtaining the qualifying assets.

### Finance leases

The carrying value of plant and equipment held under finance leases at December 31, 2010 and 2011 were Rmb 33,037 and Rmb nil (US\$ nil) respectively. Leased assets are pledged as security for the related finance lease.

## 13. Investment properties

	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Cost:</b>		
At January 1, 2010	35,978	5,709
Translation during the year	2,651	421
At December 31, 2010 and January 1, 2011	<u>38,629</u>	<u>6,130</u>
Translation during the year	(828)	(131)
Disposed of during the year	<u>(37,801)</u>	<u>(5,999)</u>
At December 31, 2011	<u>—</u>	<u>—</u>
<b>Accumulated depreciation:</b>		
At January 1, 2010	2,126	337
Charge during the year	692	110
At December 31, 2010 and January 1, 2011	<u>2,818</u>	<u>447</u>
Charge during the year	363	58
Disposed of during the year	<u>(3,181)</u>	<u>(505)</u>
At December 31, 2011	<u>—</u>	<u>—</u>
<b>Net book value:</b>		
At December 31, 2010	<u>35,811</u>	<u>5,683</u>
At December 31, 2011	<u>—</u>	<u>—</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 13. Investment properties (cont'd)

Details of the investment property (non-current) are as follows:

Location	Description	Tenure	Land area (m <sup>2</sup> )	Floor area (m <sup>2</sup> )	Owned by
49 Jalan Wong Ah Fook, Johor Bahru, Malaysia ("Wisma LKN")	18-storey office block	Freehold	1,133.1	6,948.02	LKN Development Pte. Ltd. ("LKND")

The commercial property was leased to external customers. Each lease was for a period of one to three years.

On July 8, 2011, the board of directors of HLGE announced that its wholly-owned subsidiary, LKND, had entered into a sale and purchase agreement with an unrelated third party to dispose of LKND's office property known as "Wisma LKN" for a cash consideration of RM 20,000,000. The sale of the property was completed on October 24, 2011. Gain on disposal of the investment property was Rmb 5,907 (US\$ 937).

The direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period ended December 31, 2009, 2010 and 2011 are Rmb 2,162, Rmb 1,995 and Rmb nil, respectively.

## 14. Prepaid operating leases

Yuchai and its subsidiaries are granted the land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government. The prepaid operating leases charged to expense were Rmb 11,004 and Rmb 27,286 (US\$ 4,330) for the year ended December 31, 2010 and 2011, respectively.

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Current	11,004	11,292	1,792
Non-current	407,468	387,839	61,546
Total	<u>418,472</u>	<u>399,131</u>	<u>63,338</u>
Gross payments for prepaid operating leases	481,251	487,729	77,398
Less: Amounts charged to expense	(62,779)	(88,598)	(14,060)
Total	<u>418,472</u>	<u>399,131</u>	<u>63,338</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 15. Goodwill

	<u>Rmb'000</u>	<u>US\$'000</u>
<b>Cost:</b>		
At January 1, 2010, December 31, 2010 and December 31, 2011	<u>218,311</u>	<u>34,644</u>
<b>Impairment:</b>		
At January 1, 2010, December 31, 2010 and December 31, 2011	<u>5,675</u>	<u>901</u>
<b>Net book value:</b>		
At December 31, 2010	<u>212,636</u>	<u>33,743</u>
At December 31, 2011	<u>212,636</u>	<u>33,743</u>

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

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

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

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Yuchai	<u>212,636</u>	<u>212,636</u>	<u>33,743</u>

### Yuchai unit

The Group performed its annual impairment test as at December 31, 2011 and 2010. The recoverable amount of the unit is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period. The business of Yuchai is stable since the Group had control since 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections is 13.93% (2010: 16.98%). No impairment was identified for this unit.

### Key assumptions used in value in use calculations

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

- Gross margin
- Discount rates
- Growth rate estimates

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 15. Goodwill (cont'd)

### Key assumptions used in value in use calculations (cont'd)

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

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

Growth rate estimates – Growth rates are based on management's estimate. The long term rates used to extrapolate the budget for Yuchai are 16.72% and 15.77% for 2011 and 2010 respectively.

### Sensitivity to changes in assumptions

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

## 16. Intangible assets

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Development costs	13,389	24,754	3,928

During the financial year, the Group capitalised Rmb 11,365 (US\$ 1,804) (2010: Rmb 13,389) of development expenditure for intellectual property right, technical skill and knowledge of building a new technology of heavy-duty diesel engines.

## 17. Other receivables (non-current)

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Amount due from joint ventures <sup>(i)</sup>	58,914	—	—
Deposits	2,000	—	—
Lease receivable	4,619	—	—
	<u>65,533</u>	<u>—</u>	<u>—</u>

<sup>(i)</sup> The non-current non-trade amounts due from joint venture partners were unsecured, with interest bearing at 1.681% per annum in 2010. The amount was fully repaid in 2011.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 18. Other financial liabilities

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

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Preference shares	861	830	132
Finance lease liabilities (Note 32)	27,751	—	—
	<u>28,612</u>	<u>830</u>	<u>132</u>
Current	9,743	—	—
Non-current	18,869	830	132
	<u>28,612</u>	<u>830</u>	<u>132</u>

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

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

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

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

- (a) Non-cumulative dividend which shall accrue for each Series B RCPS on a daily basis at 0.1% per annum of the amount equivalent to S\$0.16 per outstanding Series B RCPS. Series B RCPS rank pari passu with the Series A RCPS and in priority to all other classes of equity securities;
- (b) HLGE shall redeem all or part of the Series B RCPS upon the occurrence of any of the relevant redemption events as defined in the DRA;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

On February 11, 2010, Grace Star, the immediate holding company and a substantial holder of HLGE, had informed HLGE that it would convert only 17,300,000 out of the 93,229,170 of Series B RCPS it held as at that date into ordinary shares of HLGE so as to comply with the Singapore Code on Takeovers and Mergers which prohibits Grace Star from acquiring more than 1% of the ordinary shares of HLGE (including through the conversion of the RCPS) in any six-month period. Following the Mandatory Conversion Date, Grace Star became the sole holder of the remaining 75,929,170 Series B RCPS in issue.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	<u>Effective interest rate</u> %	<u>Maturity</u>	<u>31.12.2010</u> <u>Rmb'000</u>
<b>Current:</b>			
Renminbi denominated loans	4.73	2011	372,620
Singapore dollar denominated loans	1.29	2011	50,923
			<u>423,543</u>
<b>Non-Current:</b>			
Renminbi denominated loans	4.86	2012-2013	100,000
Singapore dollar denominated loans	1.20	2011	50,925
US dollars denominated loans	1.08	2011	50,925
			<u>201,850</u>

	<u>Effective interest rate</u> %	<u>Maturity</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
<b>Current:</b>				
Renminbi denominated loans	5.39	2012	3,551,848	563,642
			<u>3,551,848</u>	<u>563,642</u>
<b>Non-Current:</b>				
Renminbi denominated loans	5.24	2013	96,114	15,253
Singapore dollar denominated loans	1.38	2014	48,769	7,739
			<u>144,883</u>	<u>22,992</u>

Note:

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

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

On August 21, 2009, the Company entered into a new short-term loan agreement for up to S\$50.0 million for 12 months duration with DBS to re-finance our existing bridging credit facility with DBS which expired on September 4, 2009. The new facility will be used to finance the Company's long-term general working capital requirements. The terms of the facility include certain financial covenants as well as negative pledge and default provisions. There is an undertaking by the Company to repay S\$2.0 million every quarter. On September 1, 2010, the credit facility expired and was refinanced for S\$10.0 million with the same bank.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

On September 1, 2010, the Company entered into a new short-term loan agreement for up to S\$10.0 million for 12 months duration with DBS to refinance the S\$50.0 million facility that was due to mature on September 1, 2010. The facility will be utilised by the Company to finance its long-term working capital requirements. The terms of facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary of HLA, and that HLGE remains listed on the Singapore Exchange. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not less than US\$350 million at any time, and the ratio of the Company's consolidated debt to consolidated tangible net worth (as defined in the agreement) not exceeding 1 time. All moneys owing by the Company shall be repaid in full on the date falling 12 months after the drawdown date ("Final Repayment Date").

#### **S\$30.0 million credit facility with DBS Bank Ltd. ("DBS"):**

On November 10, 2011, the Company entered into a new facility agreement with DBS to refinance the S\$10.0 million facility that was due to mature on September 1, 2011. The new unsecured revolving credit facility has a committed aggregated value of S\$30.0 million. The facility will be utilised by the Company to finance its long-term working capital requirements. The terms of facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary of HLA, and that HLGE remains listed on the Singapore Exchange. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not less than US\$350 million at any time, and the ratio of the Company's consolidated debt to consolidated tangible net worth (as defined in the agreement) not exceeding 1.0 at any time. All moneys owing by the Company shall be repaid in full on the date falling 36 months from the date of the facility agreement ("Final Maturity Date").

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

#### **S\$30.0 million credit facility with Bank of Tokyo-Mitsubishi, UFJ Ltd, Singapore Branch ("BOTM"):**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

#### **Yuchai Rmb 1.7 billion short-term financing bonds**

Yuchai received approval from China's National Association of Financial Market Institutional Investors ("NAFMII") for the issuance of RMB-denominated unsecured short-term financing bonds ("Bonds") amounting to Rmb 1.7 billion. The Bonds were issued in two tranches. The first tranche of the Bonds amounting to Rmb 1 billion was issued on March 9, 2011 and matured on March 9, 2012. The first tranche of the Bonds bears a fixed annual interest rate of 4.59%. The second tranche of the Bonds amounting to Rmb 700 million was issued on July 22, 2011 and will mature on July 22, 2012. The second tranche of the Bonds bears a fixed annual interest rate of 5.65%. The par value and issue price of each Bond is Rmb 100. Subscription to and trading of the Bonds is only available in China to institutional investors of China's National Inter-bank Bond Market. All the proceeds from the issuance of the Bonds are used by Yuchai as working capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### Yuchai Rmb 690 million short-term financing bonds

Yuchai received approval from NAFMII for the issuance of RMB-denominated unsecured short-term financing bonds ("Bonds") amounting to Rmb 690 million. The bonds were issued on November 22, 2011 and will mature on November 23, 2012. The par value and issue price of each Bond is Rmb 100. The Bonds bear a fixed annual interest rate of 5.77%. Subscription to and trading of the Bonds is only available in China to institutional investors of China's National Inter-bank Bond Market. All the proceeds from the issuance of the Bonds are used by Yuchai as working capital.

## 19. Deferred grants

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Balance at beginning of year	179,233	280,696	44,544
Received during the year	112,592	71,015	11,269
Released to consolidated income statement	(11,129)	(18,420)	(2,923)
Balance at end of year	<u>280,696</u>	<u>333,291</u>	<u>52,890</u>
Current (Note 28)	10,960	14,708	2,334
Non-current	269,736	318,583	50,556
	<u>280,696</u>	<u>333,291</u>	<u>52,890</u>

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

## 20. Inventories

Inventories are comprised of:

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Raw materials	1,333,406	1,440,136	228,535
Work in progress	38,389	32,259	5,119
Finished goods	1,261,065	943,661	149,750
<b>Total inventories at the lower of cost and net realisable value</b>	<u>2,632,860</u>	<u>2,416,056</u>	<u>383,404</u>

Inventories recognised as an expense in cost of sales are Rmb 9,567,280, Rmb 11,230,551 and Rmb 10,975,089 (US\$ 1,741,635) in the year ended December 31, 2009, 2010 and 2011 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 20. Inventories (cont'd)

An analysis of the inventory reserve accounts is as follows:

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Balance at beginning of year	286,947	171,432	27,205
Inventories written down	26,462	52,791	8,377
Reversal of write down of inventories	(138,225)	(65,203)	(10,347)
Written off	(3,752)	(8,543)	(1,356)
Balance at end of year	<u>171,432</u>	<u>150,477</u>	<u>23,879</u>

The amount of write-down/(reversal) of inventories recognised as an expense and included in "cost of sales" amounted to Rmb 154,700, Rmb (111,763) and Rmb (12,412) (US\$ (1,970)) in year ended December 31, 2009, 2010 and 2011 respectively. The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2011.

## 21. Other current assets

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Development properties	62,022	55,698	8,838
Held for trading investment	56,628	40,524	6,431
	<u>118,650</u>	<u>96,222</u>	<u>15,269</u>

## 22. Trade and bills receivables

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Trade receivables (net)	536,011	753,924	119,640
Bills receivables	3,698,464	5,936,993	942,141
	<u>4,234,475</u>	<u>6,690,917</u>	<u>1,061,781</u>

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

The Group factored a portion of the trade receivables during the year ended December 31, 2011. Factoring is done with large banks in China. As of December 31, 2011, Rmb 800.0 million (2010: Rmb nil) was included in "interest-bearing loans and borrowings" representing the Group's obligation to the banks for trade receivables factored with recourse.

As of December 31, 2010 and 2011, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled Rmb 3,470,662 and Rmb 1,058,503 (US\$ 167,974) respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

As of December 31, 2010 and 2011, outstanding bills receivable endorsed to suppliers with recourse obligation were Rmb 790,098 and Rmb 874,340 (US\$138,749) respectively.

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Balance at beginning of year	76,646	61,161	9,706
(Credit)/debit to consolidated income statement	(15,491)	1,723	273
Written off	—	(3,702)	(587)
Translation differences	6	(5)	(1)
Balance at end of year	<u>61,161</u>	<u>59,177</u>	<u>9,391</u>

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.

At December 31, 2010 and 2011, gross trade receivables due from a major customer, Dongfeng Automobile Company and its affiliates ("the Dongfeng companies") were Rmb 319,400 and Rmb 341,374 (US\$ 54,173), respectively. See Note 34 for further discussion of customer concentration risk.

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>			
			<b>0 – 90 days</b>	<b>91-180 days</b>	<b>181-365 days</b>	<b>&gt;365 days</b>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>
At 31.12.2011	6,690,917	6,386,696	236,917	36,468	23,459	7,377
At 31.12.2010	<u>4,234,475</u>	<u>4,032,899</u>	<u>140,811</u>	<u>33,502</u>	<u>26,948</u>	<u>315</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 23. Other receivables (current)

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
GST/VAT Recoverable	88,799	188,180	29,862
Staff advances	3,649	3,856	612
Amounts due under guarantee contracts, net (see Note 32)	12,129	12,043	1,912
Associates	18,604	123,111	19,536
Other related parties	50,726	37,756	5,991
Interest receivables	5,920	3,363	534
Custom tax refund	4,380	3,916	621
Other tax recoverable	—	19,775	3,138
Bills receivable in transit	22,277	52,915	8,397
Others	30,816	37,132	5,893
Impairment losses – other receivables <sup>(i)</sup>	<u>(26,174)</u>	<u>(15,978)</u>	<u>(2,536)</u>
	<u>211,126</u>	<u>466,069</u>	<u>73,960</u>

Note:

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

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Balance at beginning of year	32,313	26,174	4,154
(Credit) / debit to consolidated income statement	(6,234)	620	98
Written off	—	(10,740)	(1,704)
Translation differences	95	(76)	(12)
Balance at end of year	<u>26,174</u>	<u>15,978</u>	<u>2,536</u>

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.

## 24. Cash and cash equivalents

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

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Cash at banks and on hand	<u>3,657,981</u>	<u>4,060,990</u>	<u>4,124,776</u>	<u>654,560</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 24. Cash and cash equivalents (cont'd)

Cash at banks earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate as at December 31, 2011 for the Group was 3.50% (2010: 2.65%; 2009: 1.57%). Cash and cash equivalents denominated in various currencies are held in bank accounts in Singapore and China.

At December 31, 2010 and 2011, the Group had available Rmb 4,072,593 and Rmb 4,072,955 (US\$ 646,337) respectively of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2009, 2010 and 2011 were Rmb 104, Rmb 102 and Rmb 366 (US\$ 58) respectively.

## 25. Issued capital and reserves

	<u>31.12.2009</u> <u>thousands</u>	<u>31.12.2010</u> <u>thousands</u>	<u>31.12.2011</u> <u>thousands</u>	<u>31.12.2011</u> <u>thousands</u>
<b>Authorised shares</b>				
Ordinary share of US\$ 0.10 each	100,000	100,000	100,000	100,000
	<u>31.12.2009</u> Rmb'000	<u>31.12.2010</u> Rmb'000	<u>31.12.2011</u> Rmb'000	<u>31.12.2011</u> US\$'000
<b>Ordinary shares issued and fully paid</b>				
37,267,673 ordinary shares issued and fully paid at US\$ 0.10 per share	1,724,196	1,724,196	1,724,196	273,613
Non-redeemable convertible cumulative preference shares ("NCCPS")	36	21	21	3

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.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## 26. Dividends paid and proposed

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Declared and paid during the year:			
Dividends on ordinary shares:			
Final dividend paid in 2010 <b>US\$ 0.25</b> per share (2009: <b>US\$ 0.10</b> per share)	63,078	—	—
Final dividend paid in 2011: <b>US\$ 1.50</b> per share (2010: <b>US\$ 0.25</b> per share)	—	365,683	58,030
	<u>63,078</u>	<u>365,683</u>	<u>58,030</u>

## 27. Statutory reserves

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
<b>Statutory general reserve</b> (see Note (ii))			
Balance at January 1	180,339	180,717	28,678
Transfer from retained earnings	378	5,045	801
Balance at end of year	<u>180,717</u>	<u>185,762</u>	<u>29,479</u>
<b>Statutory public welfare fund</b> (see Note (iii))			
Balance at January 1 and December 31	85,641	85,641	13,590
Balance at end of year	<u>85,641</u>	<u>85,641</u>	<u>13,590</u>
<b>General surplus reserve</b> (see Note (iv))			
Balance at January 1 and December 31	25,706	25,706	4,079
Balance at end of year	<u>292,064</u>	<u>297,109</u>	<u>47,148</u>

Notes:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 27. Statutory reserves (cont'd)

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

## 28. Trade and other payables (current)

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Trade payables	5,699,334	4,813,009	763,776
Other payables <sup>(1)</sup>	1,949,918	2,026,455	321,577
Deferred grants	10,960	14,708	2,334
Interest payable	2,336	61,881	9,820
Immediate holding company	40	19	3
Associates	9,458	4,120	654
Other related parties	230,271	313,959	49,822
	<u>7,902,317</u>	<u>7,234,151</u>	<u>1,147,986</u>

- <sup>(1)</sup> As of December 31, 2011, Rmb 80 million of prepayment received from a joint venture was included in other payables for the Group's transfer of technology know-how.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of three months.
- Interest payable is normally settled throughout the financial year. As of December 31, 2011, Rmb 59,303 of interest payable is relating to bond issued during the year.
- For terms and conditions relating to related parties, refer to Note 31.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29. Provision for product warranty

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Balance at beginning of year	259,534	352,154	55,883
Provision made	498,767	401,935	63,783
Less: Provision utilised	<u>(406,147)</u>	<u>(447,017)</u>	<u>(70,937)</u>
Balance at end of year	<u>352,154</u>	<u>307,072</u>	<u>48,729</u>

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 31. Related party disclosures

### *The ultimate parent*

Our controlling shareholder, HLA, indirectly owns 12,998,040, or 34.9%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. HLA controls us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 21.0% of the outstanding shares of our Common Stock and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 13.9% of the outstanding shares of our Common Stock. HLA is a member of the Hong Leong Investment Holdings Pte Ltd., or Hong Leong Investment group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, or Diesel Machinery, which, until its dissolution, was a holding company controlled by Hong Leong China and was the prior owner of the special share. Through HL Technology's stock ownership and the rights accorded to the Special Share under our bye-laws and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of Rmb 329 (US\$ 52), Rmb 299 and Rmb 470 during the financial years ended December 31, 2011, 2010 and 2009 respectively.

### *Entity with significant influence over the Group*

As of December 31, 2011, the Yulin City Government through Coomber Investment Ltd. owned 18.9% of the ordinary shares in the Company (2010: 18.0%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following provides the total amount of transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2011 and 2010, refer to Notes 23 and 28):

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
Sales of diesel engines to State Holding Company, its subsidiaries and affiliates (See Note (i))	338,094	497,637	45,398	7,204
Sales of raw materials to YMCL (See Note (i))	232,560	350,346	478,867	75,991
Sales to affiliates (See Note (i))	61,521	4,442	225,276	35,749
Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company (See Note (i))	(1,509,950)	(1,707,123)	(1,632,960)	(259,134)
Purchases of raw materials and supplies from affiliates (See Note (i))	(94,236)	(38,163)	(80,426)	(12,763)
Delivery expense charged by a subsidiary of YMCL (See Note (ii))	(210,129)	(244,360)	(229,169)	(36,367)
Storage expense charged by a subsidiary of State Holding Company (See Note (iii))	(58,667)	(41,507)	(41,410)	(6,571)
General and administrative expenses - charged by State Holding Company (See Note (iv))	(35,857)	(21,906)	(22,182)	(3,520)
- charged by HLA (See Note (v))	(470)	(299)	(329)	(52)
- charged by affiliates of HLA (See Note (vi))	(8,124)	(6,260)	(8,639)	(1,371)

Note:

- (i) Sale and purchase of raw materials, supplies, scraps and diesel engines to/from State Holding Company, its subsidiaries and affiliates, and Yuchai's associates and joint ventures. Certain subsidiaries and affiliates of State Holding Company have acted as suppliers of raw materials and supplies to the Company and certain subsidiaries of State Holding Company have acted as sales agents of the Group. The State Holding Company also purchased scraps from the Group. State Holding Company's subsidiaries and affiliates include YMCL. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms.
- (ii) Delivery expense charged by YMCL and its subsidiaries. The fee is for the delivery of spare parts charged by YMCL, which were recorded in "cost of goods sold" and "selling, general and administrative expenses" respectively. Management considers that these transactions were entered into in the normal course of business and these transactions continued on normal commercial terms.
- (iii) Storage expenses charged by subsidiary of State Holding Company for the storage of engines, components and parts for Yuchai and delivery to the production facilities are required.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- (iv) General and administrative expenses charged by State Holding Company. State Holding Company charges Yuchai for certain general and administrative expenses in respect of rental of certain office premises, property management services rendered by State Holding Company. The expenses are charged to Yuchai and its subsidiaries by State Holding Company on an actual incurred basis. Management believes that the expenses charged to Yuchai by State Holding Company would not have been materially different on a stand-alone basis because Yuchai could provide these services for itself at approximately the same amount.
- (v) Management fees, general and administrative expenses charged by HLA.
- (vi) General and administrative expenses charged by affiliates of HLA. The fees mainly relate to office rental, secretarial fees, insurance fees, professional and consultancy fees, and miscellaneous office expenses.

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

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

As of December 31, 2011, Rmb 54 million of prepayment paid to a related party was included in prepayment for the Group's acquisition of technology know-how.

### **Compensation of key management personnel of the Group**

	<u>31.12.2009</u> <u>Rmb'000</u>	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Short term employee benefits	<u>25,992</u>	<u>53,883</u>	<u>31,187</u>	<u>4,949</u>

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

## 32. Commitments and contingencies

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### *Operating lease commitments - Group as lessee (cont'd)*

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

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Within one year	16,281	9,984	1,584
After one year but not more than five years	20,469	10,259	1,628
	<u>36,750</u>	<u>20,243</u>	<u>3,212</u>

The minimum lease payments recognised as an expense in the period ended December 31, 2009, 2010 and 2011 amounted to Rmb 46,092, Rmb 49,780 and Rmb 43,806 (US\$ 6,952).

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

The Group has entered into commercial property leases on its 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 31 December are as follows:

	<u>31.12.2010</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>Rmb'000</u>	<u>31.12.2011</u> <u>US\$'000</u>
Within one year	7,326	7,006	1,112
After one year but not more than five years	11,091	9,163	1,454
More than five years	17	13,258	2,104
	<u>18,434</u>	<u>29,427</u>	<u>4,670</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Finance lease commitments

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

	31.12.2010		31.12.2011	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	11,392	9,743	—	—
After one year but not more than five years	21,720	18,008	—	—
Total minimum lease payments	33,112	27,751	—	—
Less amounts representing finance charges	(5,361)	—	—	—
Present value of minimum lease payments	27,751	27,751	—	—

The finance lease was entered into by YAMC, a subsidiary of Yuchai. In January 2011, Yuchai terminated the sale and leaseback agreement signed with CDB Leasing Company Limited ("CDB") in 2009. YAMC repaid approximately Rmb 28 million in a lump sum to CDB for redemption of the full ownership of the finance lease assets.

### Capital commitments

As of December 31, 2010 and 2011, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not recognised in the financial statements amounting to Rmb 1,323.0 million and Rmb 1,309.1 million (US\$ 207.7 million), respectively.

### Letter of credits

As of December 31, 2010 and 2011, Yuchai had issued irrevocable letter of credits of Rmb 145.6 million and Rmb 162.4 million (US\$ 25.8 million), respectively.

### Sale and leaseback

During the year ended December 31, 2009, in order to fund its business expansion plan in the current year, YAMC sold 912 equipment to CBD Leasing Company Limited ("CDB") for Rmb 40 million. These equipment were the major production machinery of YAMC. The lease agreements include a buy back provision which allows YAMC to purchase the assets at the end of the lease term. The equipment were leased back for approximately Rmb 48,672 and accounted for as the assets owned by YAMC at the present value of the minimum lease payment of Rmb 40,058. Depreciation was provided by the management on a straight-line basis over the useful life of the assets. In January 2011, Yuchai terminated the sale and leaseback agreement signed with CDB in 2009. YAMC repaid approximately Rmb 28 million in a lump sum to CDB for redemption of the full ownership of the finance lease assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

### *Dispute with Bank of China*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### *Dispute with Bank of China (cont'd)*

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

Based on the advice from the Company's Legal Counsel, the Company has recorded a loss contingency equal to the amount of the claim. The amounts due to the BOC and from the State Holding Company have been recorded in "accrued expenses and other liabilities" and "amounts due from related parties", respectively. The dispute had been resolved whereby Yuchai agreed to pay Rmb 3,500 to BOC and BOC agreed to waive the remaining guaranteed sum and the legal proceeding expenses.

### *Guarantees*

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

In return for issuing the guarantee, YEGCL received a premium fee ranging from 1% to 3% of the loan amount, which was considered to be the fair value of YEGCL's guarantee at its inception and is recorded as a liability in accordance with the provisions of IAS 39.

Subsequent to initial measurement and recognition of the liability for YEGCL's obligations under these loan guarantees, management evaluates YEGCL's guarantee portfolio and accounts for potential loss contingencies associated with the guarantees based on the estimated losses resulting from known and expected defaults. Each guarantee is secured by a cash deposit from the borrower and a security interest in the automobile purchased by the borrower. As of December 31, 2010 and 2011, YEGCL had gross receivables of Rmb 12,129 and Rmb 12,043 (US\$ 1,911), respectively, relating to payments made by YEGCL to the banks in conjunction with loans that had been defaulted and to be recovered from the individual borrowers. YEGCL recorded a bad debt allowance in the amount of Rmb 12,061 and Rmb 11,975 (US\$ 1,900) for other receivables, and Rmb 235 and Rmb 235 (US\$ 37) for potential losses associated with the guarantee at December 31, 2010 and 2011 respectively. The net receivables amount of Rmb 68 and Rmb 68 (US\$ 11) is included in "Other receivables" in the accompanying consolidated statement of financial position (See Note 23).

As of December 31, 2010 and 2011, the maximum potential amount of future undiscounted payments YEGCL could be required to make under the guarantees was Rmb 11,712 and Rmb 11,674 (US\$ 1,853), respectively. YEGCL held cash deposits of Rmb 937 and Rmb 937 (US\$ 149) as of December 31, 2010 and 2011 and security interests in automobiles with an aggregate initial purchase value of Rmb 85,275 and Rmb 85,026 (US\$ 13,493) as of December 31, 2010 and 2011, respectively. If, in the event of default the cash deposits and the amount of recoveries, if any, from repossession of the automobiles may not entirely mitigate YEGCL's losses then, YEGCL accumulates the total expected risk against the total expected recoverable amount and provides for any expected shortfall. Accordingly, management recorded an accrual for potential losses associated with the guarantees in the amount of Rmb 235 and Rmb 235 (US\$ 37) as of December 31, 2010 and 2011, respectively, included in "accrued expenses and other liabilities".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33. Segment information

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

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

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

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

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)

## 33. Segment information (cont'd)

Year ended December 31, 2011	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>Revenue</b>				
External customers	15,413,243	31,185	—	15,444,428
Inter-segment	—	—	—	—
<b>Total revenue</b>	<b>15,413,243</b>	<b>31,185</b>	<b>—</b>	<b>15,444,428</b>
<b>Results</b>				
Interest income	51,941	732	486 <sup>(1)</sup>	53,159
Interest expense	(147,813)	(12,860)	11,368 <sup>(1)</sup>	(149,305)
Impairment of property, plant and equipment	(252)	—	—	(252)
Depreciation and amortisation	(322,923)	(4,795)	(1,125) <sup>(2)</sup>	(328,843)
Share of profits of associates	(310)	1,829	—	1,519
Share of losses of joint ventures	(3,846)	(17,392)	(59,913) <sup>(9)</sup>	(81,151)
Income tax expense	(200,001)	(3,047)	(23,732) <sup>(3)</sup>	(226,780)
<b>Segment profit</b>	<b>1,424,499</b>	<b>(22,953)</b>	<b>(102,264)<sup>(4)</sup></b>	<b>1,299,282</b>
<b>Total assets</b>	<b>18,245,679</b>	<b>428,954</b>	<b>476,386<sup>(5)</sup></b>	<b>19,151,019</b>
<b>Total liabilities</b>	<b>(11,619,447)</b>	<b>(494,449)</b>	<b>313,038<sup>(6)</sup></b>	<b>(11,800,858)</b>
<b>Other disclosures</b>				
Investment in associates	1,351	36,650	—	38,001
Investment in joint ventures	272,972	102,122	81,651 <sup>(8)</sup>	456,745
Capital expenditure	931,603	123	38 <sup>(7)</sup>	931,764

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33. Segment information (cont'd)

Year ended December 31, 2010	Adjustments and eliminations			Consolidated financial statements
	Yuchai Rmb'000	HLGE Rmb'000	Rmb'000	Rmb'000
<b>Revenue</b>				
External customers	16,158,415	49,769	—	16,208,184
Inter-segment	—	—	—	—
<b>Total revenue</b>	<b>16,158,415</b>	<b>49,769</b>	<b>—</b>	<b>16,208,184</b>
<b>Results</b>				
Interest income	60,285	1,169	265 <sup>(1)</sup>	61,719
Interest expense	(122,178)	(15,791)	10,434 <sup>(1)</sup>	(127,535)
Impairment of property, plant and equipment	(1,372)	—	—	(1,372)
Depreciation and amortisation	(279,295)	(4,749)	(2,096) <sup>(2)</sup>	(286,140)
Share of profits of associates	(661)	540	—	(121)
Share of losses of joint ventures	(13,498)	6	(40,410) <sup>(9)</sup>	(53,902)
Income tax (expense)/ credit	(286,554)	9,180	(50,572) <sup>(3)</sup>	(327,946)
<b>Segment profit</b>	<b>1,851,597</b>	<b>(23,787)</b>	<b>(62,607)<sup>(4)</sup></b>	<b>1,765,203</b>
<b>Total assets</b>	<b>15,194,764</b>	<b>518,462</b>	<b>533,037<sup>(5)</sup></b>	<b>16,246,263</b>
<b>Total liabilities</b>	<b>9,201,795</b>	<b>595,542</b>	<b>(337,001)<sup>(6)</sup></b>	<b>9,460,336</b>
<b>Other disclosures</b>				
Investment in associates	1,661	36,949	—	38,610
Investment in joint ventures	245,827	126,924	141,562 <sup>(8)</sup>	514,313
Capital expenditure	640,452	3,833	20 <sup>(7)</sup>	644,305

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33. Segment information (cont'd)

Year ended December 31, 2009	TCL			Adjustments and eliminations	Consolidated financial statements
	Yuchai	HLGE	(Discontinued)		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>Revenue</b>					
External customers	13,161,087	14,816	—	—	13,175,903
Inter-segment	—	—	—	—	—
<b>Total revenue</b>	<b>13,161,087</b>	<b>14,816</b>	<b>—</b>	<b>—</b>	<b>13,175,903</b>
<b>Results</b>					
Interest income	29,674	1,788	—	114 <sup>(1)</sup>	31,576
Interest expense	(72,069)	(21,160)	—	15,736 <sup>(1)</sup>	(77,493)
Impairment of property, plant and equipment	(7,785)	—	—	—	(7,785)
Depreciation and amortisation	(275,240)	(2,659)	—	(7,415) <sup>(2)</sup>	(285,314)
Share of profits of associates	2,714	240	—	—	2,954
Share of losses of joint ventures	(83)	(15,917)	—	—	(16,000)
Income tax (expense)/ credit	(130,430)	702	—	(17,495) <sup>(3)</sup>	(147,223)
<b>Segment profit</b>	<b>1,027,837</b>	<b>(24,323)</b>	<b>—</b>	<b>(36,846)<sup>(4)</sup></b>	<b>966,668</b>
<b>Total assets</b>	<b>11,905,224</b>	<b>521,469</b>	<b>321,487</b>	<b>557,531<sup>(5)</sup></b>	<b>13,305,911</b>
<b>Total liabilities</b>	<b>7,333,157</b>	<b>596,377</b>	<b>—</b>	<b>(33,413)<sup>(6)</sup></b>	<b>7,896,121</b>
<b>Other disclosures</b>					
Investment in associates	5,615	34,029	—	—	39,644
Investment in joint ventures	67,418	129,570	—	171,037 <sup>(6)</sup>	368,025
Capital expenditure	742,655	45,571	—	710 <sup>(7)</sup>	788,936

<sup>(1)</sup> 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.

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

<sup>(3)</sup> 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.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33. Segment information (cont'd)

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

### Geographic information

Revenue from external customers:

	<u>31.12.2009</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
China	13,162,087	16,176,305	15,435,399	2,449,441
Other countries	13,816	31,879	9,029	1,433
	<u>13,175,903</u>	<u>16,208,184</u>	<u>15,444,428</u>	<u>2,450,874</u>

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

Revenue from one customer group amounted to Rmb 3,029,125 (US\$ 480,691) (2010: Rmb 3,313,432; 2009: Rmb 2,496,199), arising from sales by Yuchai segment.

	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2011</u>
	<u>Rmb'000</u>	<u>Rmb'000</u>	<u>US\$'000</u>
China	4,419,873	4,826,350	765,893
Other countries	40,046	3,857	612
	<u>4,459,919</u>	<u>4,830,207</u>	<u>766,505</u>

### Non-current assets

China	4,419,873	4,826,350	765,893
Other countries	40,046	3,857	612
	<u>4,459,919</u>	<u>4,830,207</u>	<u>766,505</u>

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

## 34. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has loan, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available-for-sale investment.

The Group is exposed to market risk, credit risk and liquidity risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### **Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

The sensitivity analysis in the following sections relate to the position as at December 31, 2011 and 2010.

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 31 December 2011.

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

### **Interest rate risk**

The primary source of the Group's interest rate risk relates to interest bearing bank deposits and its borrowings from banks and financial institutions. The interest bearing borrowings of the Group are disclosed in Note 18 to the financial statements. As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

### **Interest rate sensitivity**

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

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2011 of the Group would increase/decrease by Rmb 2.1 million (US\$ 0.3 million) (2010: profit increase/decrease by Rmb 17.2 million).

### **Foreign currency risk**

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily the Singapore dollar, Ringgit Malaysia, Chinese Renminbi and United States dollar.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Foreign currency risk (cont'd)

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimising the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

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

Group	December 31, 2010				
	Singapore		United States		
	Dollar	Euro	Dollar	Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other investments	59,615	—	—	—	—
Trade and other receivables	424	20,072	122,757	35,290	18
Cash and cash equivalents	90,804	—	3,117	—	—
Financial liabilities	(152,772)	—	—	—	—
Trade and other payables	(44,901)	(674)	(48,281)	(4,453)	(20)
In Rmb'000	<u>(46,830)</u>	<u>19,398</u>	<u>77,593</u>	<u>30,837</u>	<u>(2)</u>

Group	December 31, 2011				
	Singapore		United States		
	Dollar	Euro	Dollar	Renminbi	Others
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other investments	42,101	—	—	—	—
Trade and other receivables	496	2,961	57,230	42,849	74
Cash and cash equivalents	108,042	—	1,174	—	—
Financial liabilities	(48,769)	—	—	—	—
Trade and other payables	(41,386)	(7)	(38,555)	(2,046)	(20)
In Rmb'000	<u>60,484</u>	<u>2,954</u>	<u>19,849</u>	<u>40,803</u>	<u>54</u>
In US\$'000	<u>9,598</u>	<u>469</u>	<u>3,150</u>	<u>6,475</u>	<u>9</u>

### Foreign currency risk sensitivity

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Foreign currency risk (cont'd)

Foreign currency risk sensitivity (cont'd)

	Profit before tax		
	31.12.2010	31.12.2011	31.12.2011
	Rmb'000	Rmb'000	US\$'000
Singapore dollar	(4,683)	6,048	960
Euro	1,940	295	47
United States dollar	7,759	1,985	315
Renminbi	3,084	4,080	648

### Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

A 10% increase/(decrease) in the underlying prices at the reporting date would increase/(decrease) equity by the following amount:

	31.12.2010	31.12.2011	31.12.2011
	Rmb'000	Rmb'000	US\$'000
Equity	5,663	4,052	643

### Credit risk

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

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistic for similar financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Credit risk (cont'd)

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At December 31, 2011, the Group had approximately top 20 customers (2010: top 20 customers) that owed the Group more than Rmb 476.6 million (US\$ 75.6 million) (2010: Rmb 346.9 million) and accounted for approximately 59% (2010: 58%) of accounts receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 45 customers (2010: 35 customers) with balances greater than 1 million (US\$ 0.2 million) accounting for just over 82.3% (2010: 82.6%) of total accounts receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 22. The Group does not hold collateral as security.

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

### Liquidity risk

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

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

<b>As at December 31, 2011</b>	<b>One year or less Rmb'000</b>	<b>Two to five years Rmb'000</b>	<b>Total Rmb'000</b>
<b>Financial assets:</b>			
Trade and bill receivables	6,690,917	—	6,690,917
Other receivables:			
Staff advances	3,856	—	3,856
Amounts due under guarantee contracts, net	12,043	—	12,043
Associates	123,111	—	123,111
Other related parties	37,756	—	37,756
Others	289,303	—	289,303
Cash and cash equivalents	4,124,776	—	4,124,776
	<u>11,281,762</u>	<u>—</u>	<u>11,281,762</u>
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	3,551,848	144,883	3,696,731
Preference shares	—	830	830
Trade and other payables	7,234,151	—	7,234,151
	<u>10,785,999</u>	<u>145,713</u>	<u>10,931,712</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Liquidity risk (cont'd)

<b>As at December 31, 2010</b>	<b>One year or less Rmb'000</b>	<b>Two to five years Rmb'000</b>	<b>Total Rmb'000</b>
<b>Financial assets:</b>			
Trade and bill receivables	4,234,475	—	4,234,475
Other receivables:			
Staff advances	3,649	—	3,649
Amounts due under guarantee contracts, net	12,129	—	12,129
Associates	18,604	—	18,604
Other related parties	50,726	58,914	109,640
Others	126,018	6,619	132,637
Cash and cash equivalents	4,060,990	—	4,060,990
	<u>8,506,591</u>	<u>65,533</u>	<u>8,572,124</u>
<b>Financial liabilities:</b>			
Interest-bearing loans and borrowings	423,543	201,850	625,393
Preference shares	—	861	861
Trade and other payables	7,891,357	—	7,891,357
Finance lease liabilities	9,743	18,008	27,751
	<u>8,324,643</u>	<u>220,719</u>	<u>8,545,362</u>

## 35. Capital management

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

The capital structure of the Group consists of debts (which includes the borrowings and trade and other payables, less cash and cash equivalents) and equity attributable to owners of the parent (comprising issued capital and reserves).

	<b>31.12.2010 Rmb'000</b>	<b>31.12.2011 Rmb'000</b>	<b>31.12.2011 US\$'000</b>
Interest-bearing loans and borrowings (Note 18)	625,393	3,696,731	586,634
Trade and other payables (Note 28)	7,902,317	7,234,151	1,147,986
Less: Cash and cash equivalents (Note 24)	<u>(4,060,990)</u>	<u>(4,124,776)</u>	<u>(654,560)</u>
Net debts	4,466,720	6,806,106	1,080,060
Equity	5,097,947	5,542,203	879,491
Total capital and net debts	<u>9,564,667</u>	<u>12,348,309</u>	<u>1,959,551</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 35. Capital management (cont'd)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and 2010.

## 36. Fair values of financial instruments

### Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Other techniques for which all inputs that have a significant effect on the fair value are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The Group has a financial asset in level 1. The Group owns shares 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. As at December 31, 2011, the Group classified the investment as held for trading and measured the investment at fair value through profit or loss. The Group does not have any financial instruments in level 2 and level 3 of the hierarchy.

### **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value.**

The Group's financial assets consists of the carrying amounts of trade and bills receivables, other receivables, cash and cash equivalents, interest-bearing loans and borrowings, trade and other payables and other finance lease liabilities approximate their fair value due to their short term nature.

### **Other financial assets and liabilities**

The carrying amounts of other receivables (long-term) and interest bearing loans and borrowings (long-term) approximate their fair value as their interest rates approximates the market lending rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 37. Events after the balance sheet date

### (a) Implementation of the HL Global Enterprise Share Option Scheme 2006

To facilitate the implementation of the HL Global Enterprises Share Option Scheme 2006 (the "**2006 Scheme**"), HLGE had, on January 13, 2012, 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**").

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

The Trustee has the power to vote or abstain from voting at any general meeting of HLGE in its absolute discretion in respect of the Trust Shares.

On January 13, 2012, Grace Star, a controlling shareholder of HLGE and a wholly-owned subsidiary of the Company, transferred 24,189,170 Series B redeemable convertible preference shares in the capital of HLGE (the "**Series B Preference Shares**"), representing 100% of the remaining unconverted Series B Preference Shares, 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 Series B Preference Shares held by the Trustee were converted into 24,189,170 new ordinary shares of HLGE (the "**Shares**") on January 16, 2012, and the new Shares which rank *pari passu* in all respects with the existing issued Shares, were held by the Trustee as Trust Shares under the Trust. The Group's shareholding interest in HLGE decreased from 49.4% to 48.1%.

Notwithstanding the above, the Group continues to consider HLGE a subsidiary as it is able to govern the financial and operating policies of HLGE.

### (b) Conversion of RCPS A

On March 5, 2012, upon the transfer of one RCPS A share to Venture Delta, a wholly-owned subsidiary of the Company, Grace Star and Venture Delta sent requisition notices to HLGE's Board of Directors requesting for the convening of a meeting of the holders of the RCPS A to propose the conversion of all the outstanding RCPS A into ordinary shares in the capital of HLGE in accordance with HLGE's articles of association. Pursuant to the receipt of the requisition notices from Grace Star and Venture Delta, HLGE's Board of Directors announced on March 15, 2012 that a meeting of the holders of the RCPS A would be convened on March 30, 2012 to approve the conversion of all the outstanding RCPS A into ordinary shares in the capital of HLGE. At the meeting on March 30, 2012, the holders of the RCPS A approved the conversion of all the outstanding RCPS A into ordinary shares in the capital of HLGE and on April 11, 2012, our shareholding interest in HLGE increased from 48.1% to 48.9%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 37. Events after the balance sheet date (cont'd)

### (c) Repayment of Yuchai Rmb 1 billion short-term financing bonds

Yuchai received approval from China's National Association of Financial Market Institutional Investors ("NAFMII") for the issuance of RMB-denominated unsecured short-term financing bonds amounting to Rmb 1.7 billion ("Bonds"). The Bonds were issued in two tranches. In March 2012, the first tranche of the Bonds amounting to Rmb 1 billion was fully repaid upon its maturity.

## REFERENCE INFORMATION

### **US Transfer Agent and Registrar**

Computershare  
480 Washington Boulevard  
Jersey City, NJ 07310-1900  
United States of America

### **Investor Relations**

Grayling USA  
405 Lexington Avenue, 7<sup>th</sup> Floor  
New York, NY 10174  
USA

### **Common Stock**

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

### **Auditors**

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

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## China Yuchai International Limited

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

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