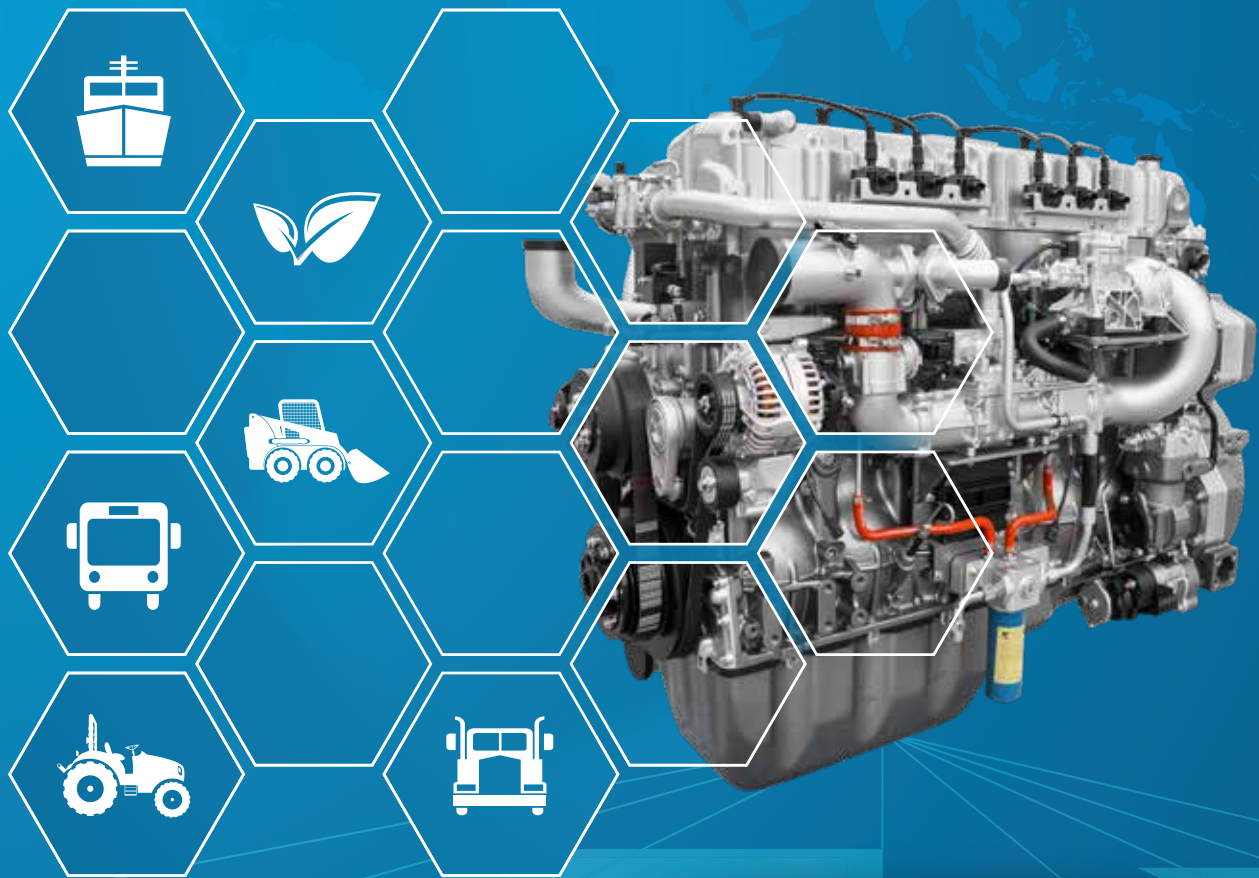
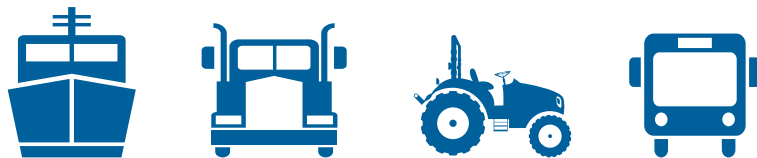




China Yuchai International Limited

Connectivity and Cooperation





GYMCL Engine Testing Centre renews its **Accreditation Certificate from China National Accreditation Service Conformity Assessment (CNAS)**

GYMCL won the “**China’s Export Quality and Safety Demonstration Enterprise**” award from the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China

YC6K-50 won the prize of “**The Most Reliable Commercial Vehicle Power**”

YC4A and YC6J engines won the award of “**Gold Medal Product**” and “**Market Performance**” from China Association of Agricultural Machinery Manufacturers (CAAMM)

GYMCL launched **14 models National 6 and Tier 4 emission standard compliant engines** in January 2018



Front Cover: The K13N gas engine is among the 14 new engines launched by China Yuchai this year, that are compliant with China’s more stringent National VI emission standards.

China Yuchai's Core Ideals

Vision

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

Mission

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

玉柴国际的核心理念

愿景

成为卓越环保发动机和汽车系统制造商和提供优良产品及一流服务的供应商

使命

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

CONNECTIVITY AND COOPERATION

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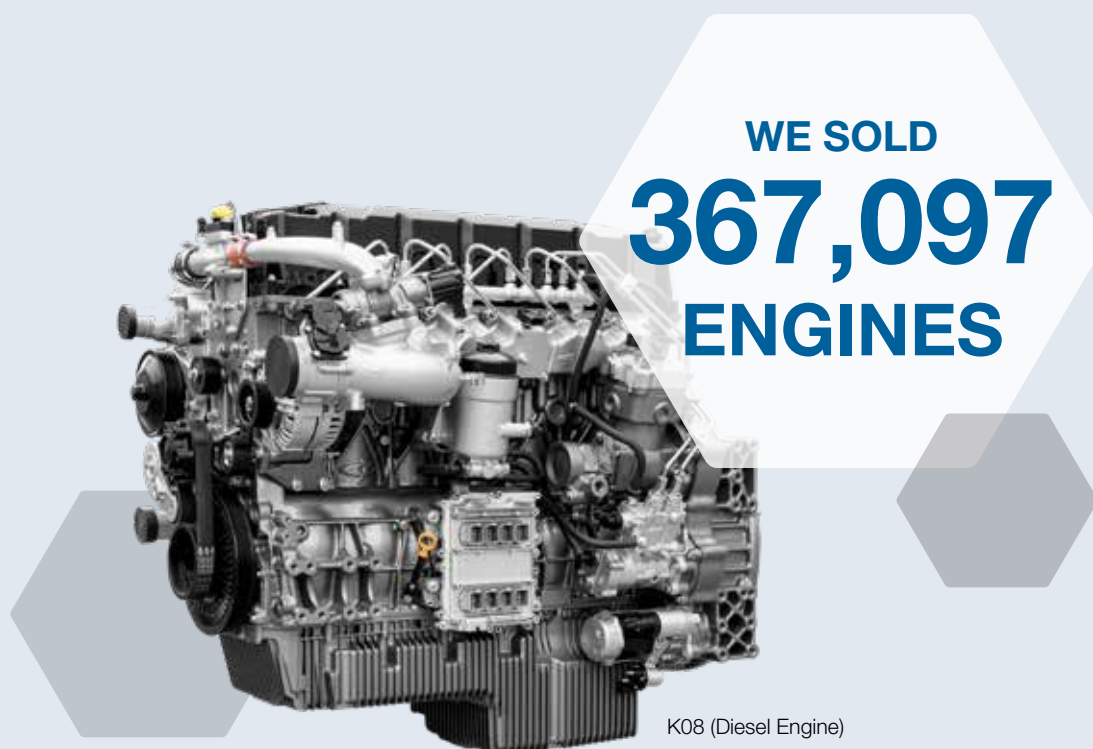
01 China Yuchai's Core Ideals	10 Yuchai Overseas Network
02 Financial Highlights	11 Directors and Executive Officers of the Company
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Financial Highlights

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Revenue	13,733,437	13,664,840	16,222,442
Profit attributable to equity holders of the parent*	341,108	515,737	953,922
Total assets	18,815,602	18,596,506	21,015,059
Equity attributable to equity holders of the parent	7,239,617	7,683,834	8,347,562

	2015	2016	2017
Earnings per share attributable to ordinary equity holders of the parent (RMB per share)	8.81	12.89	23.40
Weighted average number of shares	38,712,282	40,016,808	40,764,569

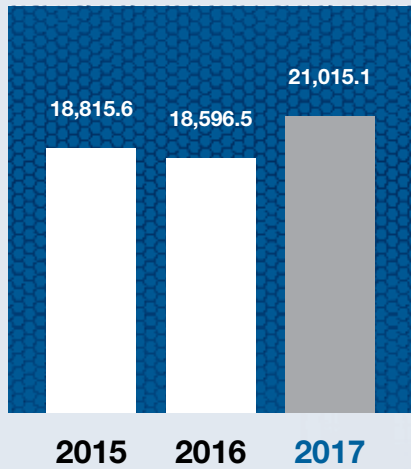
*the term "parent" as used here refers to China Yuchai.



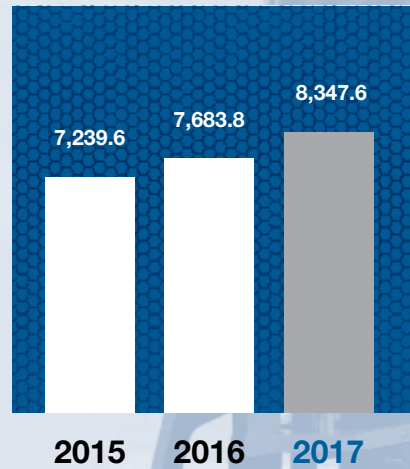
K08 (Diesel Engine)

Financial Highlights

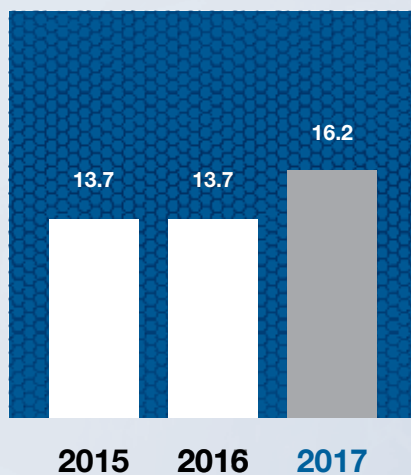
TOTAL ASSETS (in RMB million)



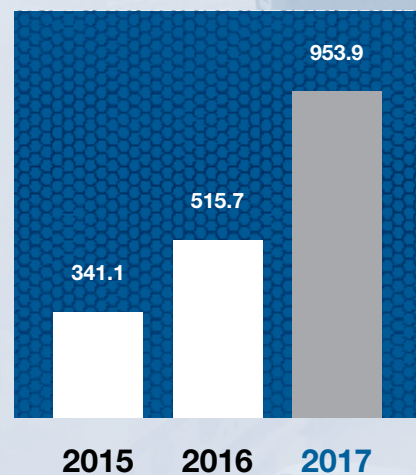
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in RMB million)



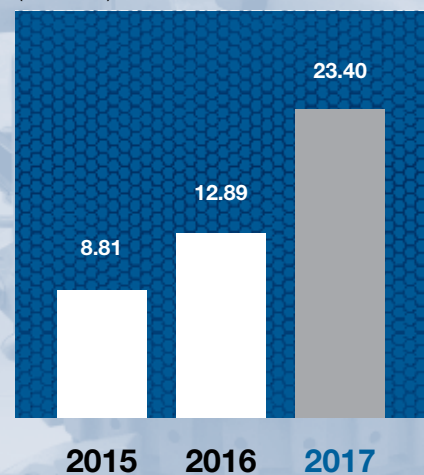
REVENUE (in RMB billion)



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



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



President's Statement



Revenue
RMB 16.2
billion

Dear Shareholders,

The Chinese economy regained its growth momentum in 2017 as GDP increased by 6.9%, exceeding most of the market expectations. The strong recovery in the developed nations along with the accelerated growth in the emerging markets paved the way for improved demand for Chinese products globally. Domestically, the Chinese government led a successful reduction in overcapacity that had plagued the economy since 2010. The stronger economy required more trucks whether to help construction or to move a higher volume of merchandise. The new environmental protection policy, namely, anti-overloading regulation enforcement, also contributed to rekindled truck demand. According to data reported by China Association of Automobile Manufacturers (“CAAM”), commercial vehicle unit sales (excluding gasoline-powered and electric-powered vehicles) in the 2017 year grew by 16.9%. Heavy-duty truck sales climbed to a historical high at 1.1 million units or a robust 52.4% year-over-year growth.

Many of our OEM customers cranked up production to meet the rising demand. As a trusted producer with the largest aftermarket service network, our heavy-duty truck engine business posted an accelerated unit growth of 64.5% in 2017. In addition to the heavy-duty segment, our light-duty truck engine division also set a new record in unit sales with a vigorous 49.5% year-over-year increase. We also continued to rapidly regain market share in the agricultural and farming equipment sector as our engine shipments to the vast agricultural market in China expanded with a strong 31.1% increase from 2016. As the Chinese government heavily promoted the ‘One Belt One Road’ initiative, our international business achieved growth in 2017 with over 12,000 engines shipped and installed in Chinese buses entering into the

global market, and natural gas engine export sales grew 300% year-on-year. With multiple cylinders firing at the same time for us in 2017, our total number of on- and off-road engines sales rose 14.6% to 367,097 units from 320,424 units in 2016.

Our net revenue increased by 18.7% to RMB 16.2 billion (US\$ 2.6 billion) for the 2017 year compared to RMB 13.7 billion in 2016. Gross profit rose by 18.6% to RMB 3.5 billion (US\$ 555.3 million) with a gross margin of 21.7%. Our operating profit increased by 77.4% to RMB 1.7 billion (US\$ 271.1 million), including a net gain of RMB 324.1 million (US\$ 51.2 million) from one-time events related to the sale of hotel assets by our subsidiary, HL Global Enterprises Limited (“HLGE”), compared with RMB 967.2 million in 2016. Net profit attributable to equity holders of the parent including a net gain of RMB 130.3 million (US\$ 20.6 million) from the one-time and extraordinary events, increased by 85.0% to RMB 953.9 million (US\$ 150.7 million), compared with RMB 515.7 million in 2016. Earnings per share increased by 81.5% to RMB 23.40 (US\$ 3.70) including a net gain of RMB 3.19 (US\$ 0.50) from one-time and extraordinary events, compared with RMB 12.89 in 2016. Cash flow from operations in 2017 was RMB 1.4 billion (US\$ 216.5 million).

As a leading commercial vehicle engine producer in China, we continued to invest in and grow our best-in-class research and development (“R&D”) program. We are committed to developing high-performance, high-quality and high-durability products with a full portfolio of National VI (equivalent to Euro VI) diesel and natural gas applications for on-road vehicles and Tier-4 engines for off-road vehicles well before the expected mandated date set by the government. In January 2018, 14 new engines were introduced that complied with the more

President's Statement

stringent National VI emission standard, which is expected to be implemented by mid-2020 according to the Ministry of Environmental Protection requirement. We continue to focus on advancing our engine technologies to lead the industry in emission control and performance enhancement.

Our dedication to quality continued to win a number of accolades in 2017. We received the prestigious "China's Export Quality and Safety Demonstration Enterprise" award by the General Administration of Quality Supervision, Inspection and Quarantine. That award is the highest credit rating and honor for Chinese companies that sell their products internationally. Our YC4A series products and YC6J series products also won the Gold Award, Product of the Year, 2017 and the Market Performance Award, 2017, respectively. These awards are not only an acknowledgement of the best-in-class products we design and produce, but a vote of confidence that our customers continue to choose our products.

We are proud of being a company that grows with strong financial discipline. During 2017, our capacity was better utilized, our expenses were better controlled, and our cashflow, as usual, was strong. As a result, our balance sheet remained sturdy. Cash and bank balances were RMB 6.0 billion (US\$ 952.6 million), significantly higher than RMB 4.1 billion at the end of 2016, while net cash rose to RMB 4.4 billion (US\$ 695.6 million) at the year end from RMB 3.1 billion in 2016. Our subsidiary HLGE finally negotiated a deal to sell its hotel assets in 2017 and we not only received repayment of the outstanding loan of 68 million Singapore Dollars, but also recorded a profit attributable to equity holders of the parent of RMB 162.6 million (US\$ 25.7 million).

Notwithstanding China's policies to promote electric vehicles, diesel engines remain an integral part of the growth in transportation and construction. Ongoing infrastructure projects and the growing agricultural market continue to rely on robust diesel engines which is always the best solution in adverse operating environments.

Given our strategy of providing advanced heavy-, medium- and light-duty diesel, natural gas and hybrid engines for on-road and multiple off-road market applications, we are better positioned to serve the changing needs of the markets.

Looking back, 2017 was an exceptional growth year as we benefited from growth in on-road heavy-duty and light-duty engines, and in industrial and agricultural engines. After a year of strong growth in the Chinese engine markets, we still expect some market segments will continue to experience growth in 2018.

We continue to focus on building our financial strength through positive cash flow generation from operations and maintaining a strong balance sheet. In 2017, aggregate dividends were approximately US\$ 34.7 million in cash with 99,790 new shares issued based on shareholder elections. Dividends continue to be our vehicle to return value to our shareholders and let them participate in our success.

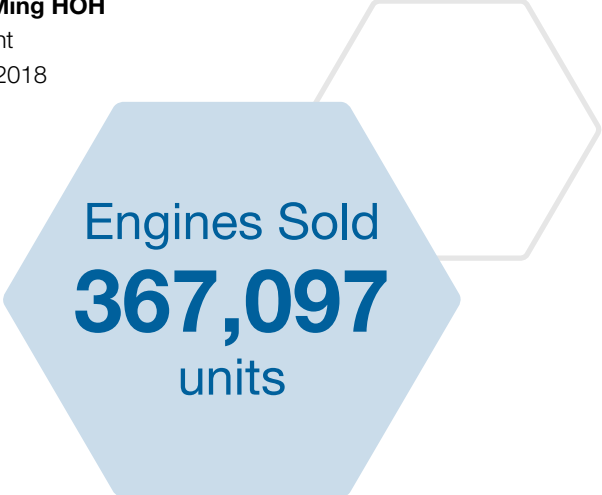
Weng Ming HOH

President

May 9, 2018

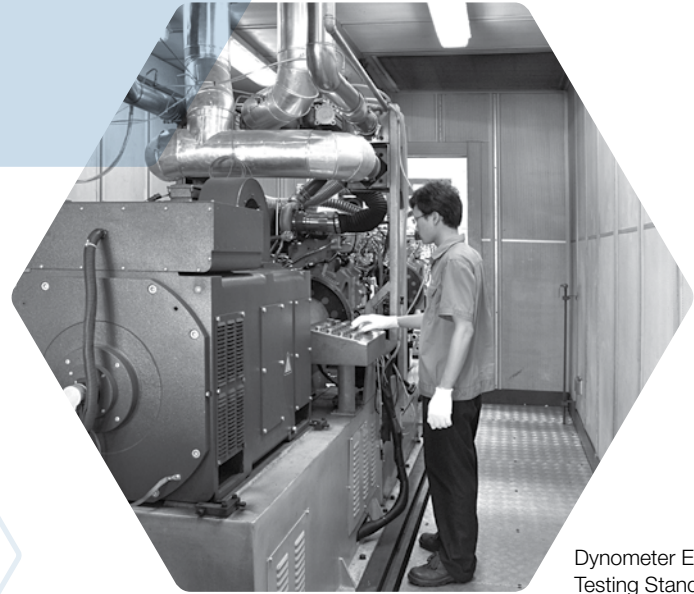


Operating
Profit
RMB 1.7
billion



Engines Sold
367,097
units

总裁致词



Dynamometer Engine Testing Stand

尊敬的股东们：

2017年中国经济恢复了增长的势头，国内生产总值增长6.9%，超过大部分市场预期。发达国家的强势复苏以及新兴市场的加速发展加大了全球对中国产品的需求。在国内，中国政府成功地减轻了自2010年以来困扰经济的产能过剩问题。强劲的经济需要更多的卡车来参与社会建设和加快商品贸易物流。新的环保政策即反超载法规的实施，也重新点燃了市场对卡车的需求。根据中国汽车工业协会公布的数据，2017年商用车销量（不包括汽油和电动汽车）增长了16.9%；重型卡车销量攀升至历史高位110万辆，同比强劲增长52.4%。

我们很多OEM客户加紧生产以满足不断增长的需求。作为拥有强大售后服务网络的、有信誉的生产商，我们重型卡车发动机业务在2017年同比加速增长了64.5%。同时，我们的轻型卡车发动机销量也创下了新记录，同比强劲增长49.5%。我们继续迅速恢复在农业和农耕设备板块在国内农业市场的市场份额，自2016年以来我们的农用发动机出货量同比强劲增长了31.1%。随着中国政府大力推进“一带一路”的倡议，国际业务方面我们在2017年有超过了12,000台发动机的增长用于中国客车出口国际市场，天然气发动机出口同比增长300%。2017年，在多缸发动机热卖的同时，我们道路与非道路用途的发动机销售量增加到367,097台，比2016年的320,424台增长了14.6%。

2017年我们的净收入达到了人民币162亿元（即26亿美元），比2016年的人民币137亿元增长了18.7%。毛利润增

长18.6%达到人民币35亿元（即5.553亿美元），毛利率为21.7%。我们的营业利润比2016年的人民币9.672亿元增长了77.4%，达到了人民币17亿元（即2.711亿美元），其中包括出售子公司HLGE的酒店资产获取的一次性净收益人民币3.241亿元（即5,120万美元）。归属于股东净利润比2016年的人民币5.157亿元增长了85.0%，达到人民币9.539亿元（即1.507亿美元），其中包括一次性及非常规性交易净收入人民币1.303亿元（即2,060万美元）。每股收益比2016年的人民币12.89元增长了81.5%，达到人民币23.40元每股（即3.70美元），其中包括从一次性及非常规性净收益人民币3.19元每股（即0.50美元）。2017年度经营性现金流为人民币14亿元（即2.165亿美元）。

作为中国领先的商用车发动机制造商，我们会继续投资和推进我们一流的研发项目发展。我们致力于开发高性能、高质量、高耐久全系列国六（相当于“欧六”）产品，道路用途的柴油和天然气发动机以及非道路用途的Tier4发动机在政府指定的强制执行预期时间前完成研发。2018年1月，我们发布了14台符合更为严格国六排放标准的新发动机，根据国家环境保护局的要求，国六排放标准预计在2020年年中实施。我们继续专注于提高我们的发动机技术，成为行业排放控制和性能提升的引领企业。

我们追求品质，在2017年不断赢得了多项荣誉，获得了质量监督检验检疫总局颁发的“中国出口质量安全示范企业”奖项，该奖项是中国企业在国际销售产品方面的最高信用评级和荣誉的体现。我们的YC4A系列产品和YC6J系列产品还分别获得了2017年年度产品金奖和2017年市场表现金奖。这些奖



项不仅是对我们设计和生产的一流产品的认可，同时也为客户继续选择我们的产品坚定了信心。

我们为自己成为一家拥有较强财务纪律的公司而感到自豪。在2017年，我们的生产能力得到了更好的利用，我们的费用得到了更好的控制，我们的现金流也一如既往地强劲。我们的资产负债表仍然很稳健。现金和银行存款为人民币60亿元（即9.526亿美元），比2016年底的人民币41亿元，显著增加，而现金净额从2016年末的人民币31亿元增加到人民币44亿元。我们的子公司HLGE最终达成协议，在2017年出售其酒店资产，我们不但收到了其偿还的新币6,800万元贷款，还获得了归属于母公司的股东收益人民币1.626亿元（即2,570万美元）。

尽管中国政策推动发展电动汽车，但柴油机仍依然是运输和建设发展的一个组成部分。正在进行的基础设施项目和日益增长的农业市场继续依赖于强劲的柴油发动机，在恶劣的作业环境中，使用柴油机一直是最佳的解决方式。

我们提供先进的道路和非道路用途的重中轻型柴油、天然气和混合动力发动机，我们能更好地适应市场需求的变化。

回顾过去，得益于道路用途重、轻型发动机以及工业与农业用途发动机销量增长，2017年是飞跃发展的一年。中国发动机市场经过了这一年的强劲增长，我们依然展望2018年在其他市场板块同样能继续进步。

我们继续专注于通过运营产生现金流来打造我们的财务实力，并保持一个稳健的资产负债表。2017年，以股东选择为基础，我们共派发了约为3,470万美元现金及99,790新股的总股息。股息依然是我们对股东最好的回报，与其分享我们成功的果实。

何永明
总裁
2018年5月9日

Corporate Background

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

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

GYMCL’s products range from 1.2L to 105.6L over 10 engine platforms with a power range from 60PS to 3,600PS. In its current portfolio, the number of engine series offerings is 30 and GYMCL is intending to further expand its reach in the

on-road diesel and natural gas engine markets as well as in the off-road market with improved product offerings such as higher rating agricultural engine, high horsepower marine diesel engine and power generator engine. GYMCL produces diesel and natural gas engines compliant with China National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with China National VI emission standards as well as develop alternative fuels and environmentally friendly plug-in hybrid diesel and gas engines with improved fuel efficiency. GYMCL also has the ability to produce diesel engines compliant with China Tier 3 emission standards for use in off-road machinery.

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

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

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

公司背景

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

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

广西玉柴产品涵盖超过十个发动机平台机型容量从1.2升到105.6升、功率从60马力到3,600马力的各种类型发动机。依托于现有组合，其有30个系列的发动机并且将

进一步扩大其在道路柴油和天然气发动机市场的市场份额，以及通过如高等级农用柴油机、高马力船用柴油机和发电机组等改善产品组合，扩大其在非道路发动机市场的份额。广西玉柴生产符合中国国五排放标准的柴油和天然气发动机，其也有能力生产一定的符合国六排放标准的柴油和天然气发动机，以及研发替代燃料和环境友好的燃料效率较高的插电式混合动力柴油和天然气发动机。广西玉柴同时也有能力生产符合国家Tier 3排放标准的满足非道路应用的柴油发动机。

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

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

丰隆环球的核心业务是酒店经营与房地产开发。

Our China-Wide Presence



As of April 2018

Yuchai Overseas Network



Overseas Service
Agents Appointed
as of April 2018

172



Overseas Offices

12



Directors and Executive Officers of the Company

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of February 28, 2018, there were eight members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yiyong are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming ⁽¹⁾⁽⁴⁾	President and Director	2011
GAN Khai Choon ⁽¹⁾⁽⁴⁾	Director	1995
KWEK Leng Peck ⁽¹⁾⁽²⁾	Director	1994
YAN Ping ⁽¹⁾	Director	2012
WU Qiwei ⁽¹⁾	Alternate Director to YAN Ping	2012
NEO Poh Kiat ⁽¹⁾⁽²⁾⁽³⁾	Director	2005
TAN Aik-Leang ⁽¹⁾⁽³⁾	Director	2005
HAN Yiyong ⁽¹⁾	Director	2010
HO Raymond Chi-Keung ⁽²⁾⁽³⁾	Director	2013
PHUNG Khong Fock Thomas ⁽¹⁾	Chief Financial Officer	2016
Conyers Corporate Services (Bermuda) Limited ⁽⁵⁾	Secretary	2015

Ms. Shing Mei Deborah Foo relinquished her position as General Counsel in August 2017. Ms. Yanni Long was appointed as Ms. Foo's successor in July 2017 and relinquished her position in January 2018.

⁽¹⁾ Also a Director of Yuchai.

⁽²⁾ Member of the Compensation Committee.

⁽³⁾ Member of the Audit Committee.

⁽⁴⁾ Also a Director of HLGE.

⁽⁵⁾ Codan Services Limited was renamed to Conyers Corporate Services (Bermuda) Limited with effect from April 1, 2017.

Board of Directors

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

Mr. Gan Khai Choon is a Director of the Company, Yuchai, Grace Star, Venture Lewis, Venture Delta, Safety Godown Company Limited and Millennium & Copthorne Hotels Management (Shanghai) Limited. He is also the Non-Executive Chairman of HLGE and Beijing Fortune Hotel Co., Ltd. as well as the Managing Director of Hong Leong International (Hong Kong) Limited. 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 the Executive Chairman of Hong Leong Asia, an Executive Director of Hong Leong Investment Holdings Pte. Ltd. and the Non-Executive Chairman of Tasek Corporation Berhad. He also sits on the boards of HL Technology, Hong Leong China, Yuchai, City Developments Limited, Hong Leong Finance Limited and Millennium & Copthorne Hotels Plc, as well as other affiliated companies. He has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

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

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

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

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan was also a Director of the Risk Management Association, Hong Kong Chapter from May 2000 to January

Board of Directors

2016. Mr. Tan graduated in Accounting from Western Australian Institute of Technology (now known as Curtin University). He is a Fellow member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an independent Director on April 30, 2013. He is now practicing as an independent arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining the secretariat of the Law Society in 2006, he had practiced law for 23 years since 1983. He holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well

as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the panel of arbitrators of the Hong Kong International Arbitration Centre. He is a non-practising member of the Law Society of Hong Kong, The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho is currently a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

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

Executive Officers of the Company

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

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

Corporate Governance

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

directors to their boards; (ii) hold regular meetings of non-management directors; (iii) establish audit, nominating and governance or compensation committees; (iv) have shareholders approve equity compensation plans; (v) adopt corporate governance guidelines; or (vi) adopt a code of business conduct and ethics.

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

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



CNC Gantry Milling Machine

Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
Director Independence	
<ul style="list-style-type: none"> A majority of the board must consist of independent directors. 	<ul style="list-style-type: none"> Three of our eight directors, Messrs. Neo Poh Kiat, Tan Aik-Leang and Ho Raymond Chi-Keung are independent within the meaning of the NYSE standards.
<p>Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over US\$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.</p>	
<ul style="list-style-type: none"> The non-management directors of each company must meet at regularly scheduled executive sessions without management. 	<ul style="list-style-type: none"> As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.
Audit Committee	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our audit committee meets the requirements of Rule 10A-3 under the Exchange Act.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> The audit committee must have a written charter that addresses the committee's purpose and responsibilities. 	<ul style="list-style-type: none"> Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of US companies.
<p>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.</p>	<ul style="list-style-type: none"> Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US companies.


Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
<p>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.</p>	<ul style="list-style-type: none"> Our audit committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.
<ul style="list-style-type: none"> Each listed company must have an internal audit function. 	<ul style="list-style-type: none"> We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, review significant audit issues and monitors corrective actions taken by management.
Compensation Committee	
<ul style="list-style-type: none"> Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards. 	<ul style="list-style-type: none"> Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
<ul style="list-style-type: none"> The committee must have a written charter that addresses its purpose and responsibilities. 	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.

Corporate Governance

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
Nominating/Corporate Governance Committee	
<ul style="list-style-type: none"> Listed companies must have a nominating/corporate governance committee composed entirely of independent board members. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee. 	
Equity-Compensation Plans	
<ul style="list-style-type: none"> Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions. 	<ul style="list-style-type: none"> We intend to have our shareholders approve equity-compensation plans.
Corporate Governance Guidelines	
<ul style="list-style-type: none"> Listed companies must adopt and disclose corporate governance guidelines. 	<ul style="list-style-type: none"> We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.
Code of Business Conduct and Ethics	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at http://www.cyilimited.com. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited at December 31, 2017 and 2016, and the results of its operations, changes in equity and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), China Yuchai International Limited’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as China Yuchai International Limited’s auditor since 2009

Singapore

April 16, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited China Yuchai International Limited's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, China Yuchai International Limited (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of China Yuchai International Limited as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated April 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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 China Yuchai International Limited's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to China Yuchai International Limited in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

Report of Independent Registered Public Accounting Firm

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP
Singapore
April 16, 2018

Consolidated Statement of Profit or Loss

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

	Note	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
Revenue	7	13,733,437	13,664,840	16,222,442	2,563,030
Cost of sales	8.1	(10,942,865)	(10,700,655)	(12,707,419)	(2,007,681)
Gross profit		2,790,572	2,964,185	3,515,023	555,349
Other operating income	8.2(a)	106,931	117,954	647,352	102,276
Other operating expenses	8.2(b)	(87,594)	(22,599)	(22,719)	(3,589)
Research and development costs	8.1	(506,955)	(588,007)	(608,181)	(96,088)
Selling, general and administrative costs	8.1	(1,497,774)	(1,504,360)	(1,815,853)	(286,892)
Operating profit		805,180	967,173	1,715,622	271,056
Finance costs	8.3	(116,351)	(79,683)	(100,439)	(15,869)
Share of (loss)/profit of associates and joint ventures, net of tax	5,6	(2,691)	(3,612)	10,054	1,589
Profit before tax		686,138	883,878	1,625,237	256,776
Income tax expense	9	(176,818)	(160,270)	(220,167)	(34,785)
Profit for the year		<u>509,320</u>	<u>723,608</u>	<u>1,405,070</u>	<u>221,991</u>
Attributable to:					
Equity holders of the parent		341,108	515,737	953,922	150,713
Non-controlling interests		168,212	207,871	451,148	71,278
		<u>509,320</u>	<u>723,608</u>	<u>1,405,070</u>	<u>221,991</u>
Earnings per share					
- Basic	10	8.81	12.89	23.40	3.70
- Diluted	10	8.81	12.89	23.40	3.70

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>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Profit for the year	509,320	723,608	1,405,070	221,991
Other comprehensive income				
<i>Items to be reclassified to profit or loss in subsequent periods, net of tax:</i>				
Foreign currency translation	31,533	36,394	(72,271)	(11,417)
Realization of foreign currency translation reserves upon disposal of foreign operation	—	—	(4,252)	(673)
Realization of foreign currency translation reserves upon liquidation of foreign operation	144	—	—	—
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax	<u>31,677</u>	<u>36,394</u>	<u>(76,523)</u>	<u>(12,090)</u>
Total comprehensive income for the year, net of tax	<u>540,997</u>	<u>760,002</u>	<u>1,328,547</u>	<u>209,901</u>
Attributable to:				
Equity holders of the parent	375,646	555,355	892,222	140,965
Non-controlling interests	165,351	204,647	436,325	68,936
	<u>540,997</u>	<u>760,002</u>	<u>1,328,547</u>	<u>209,901</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	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
ASSETS				
Non-current assets				
Property, plant and equipment	11	4,127,185	3,824,018	604,168
Investment property	12	7,298	7,434	1,174
Prepaid operating leases	13	379,636	367,270	58,026
Goodwill	14	212,636	212,636	33,595
Intangible assets	15	81,826	10,122	1,599
Investment in associates and joint ventures	5,6	180,187	198,287	31,328
Deferred tax assets	9	308,207	315,390	49,829
Long-term bank deposits	23	—	70,000	11,060
Other receivables	21	1,588	620	98
Other assets	19	—	303	48
		<u>5,298,563</u>	<u>5,006,080</u>	<u>790,925</u>
Current assets				
Inventories	18	1,663,879	2,572,745	406,475
Trade and bill receivables	20	7,057,256	7,031,544	1,110,934
Other receivables and prepayments	21	386,365	384,390	60,731
Prepaid operating leases	13	12,546	12,546	1,982
Other assets	19	35,559	48,547	7,670
Cash and cash equivalents	23	3,653,914	5,390,324	851,633
Short-term bank deposits	23	363,043	514,074	81,220
Restricted cash	23	36,000	54,809	8,659
Asset classified as held for sale	22	89,381	—	—
		<u>13,297,943</u>	<u>16,008,979</u>	<u>2,529,304</u>
Total assets		<u><u>18,596,506</u></u>	<u><u>21,015,059</u></u>	<u><u>3,320,229</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)

	Note	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	24	2,059,076	2,081,138	328,805
Preference shares	24	21	21	3
Statutory reserves	26	299,144	301,026	47,560
Capital reserves		30,954	30,704	4,851
Retained earnings		5,306,199	6,009,395	949,441
Other components of equity	26	(11,560)	(74,722)	(11,805)
Equity attributable to equity holders of the parent		7,683,834	8,347,562	1,318,855
Non-controlling interests		2,301,978	2,631,714	415,792
Total equity		9,985,812	10,979,276	1,734,647
Non-current liabilities				
Interest-bearing loans and borrowings	16(b)	16,270	26,341	4,162
Other liabilities	16(a)	70	46	7
Deferred tax liabilities	9	115,758	116,468	18,401
Deferred grants	17	315,950	331,377	52,355
Other payables	28	136,772	156,347	24,702
		584,820	630,579	99,627
Current liabilities				
Trade and other payables	28	6,845,043	7,468,149	1,179,914
Interest-bearing loans and borrowings	16(b)	894,136	1,600,000	252,789
Other liabilities	16(a)	178	33	5
Provision for taxation		47,667	46,716	7,381
Provision for product warranty	29	238,850	290,306	45,866
		8,025,874	9,405,204	1,485,955
Total liabilities		8,610,694	10,035,783	1,585,582
Total equity and liabilities		18,596,506	21,015,059	3,320,229

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

Consolidated Statement of Changes in Equity

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

	Attributable to the equity holders of the parent												
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve		Performance shares reserve	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
						RMB'000	RMB'000						
At January 1, 2015	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814	
Profit for the year	—	—	—	—	341,108	—	—	—	—	341,108	168,212	509,320	
Other comprehensive income for the year, net of tax	—	—	—	—	—	34,538	—	—	—	34,538	(2,861)	31,677	
Total comprehensive income for the year	—	—	—	—	341,108	34,538	—	—	—	375,646	165,351	540,997	
Transactions with owners, recorded directly in equity													
<i>Contributions by and distributions to owners</i>													
Shares issued during the year (Note 24)	115,493	—	—	—	—	—	—	—	—	115,493	—	115,493	
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(108,511)	(108,511)	
Dividends declared and paid (US\$1.10 per share)	—	—	—	—	(257,500)	—	—	—	—	(257,500)	—	(257,500)	
Cost of share-based payments (Note 27)	—	—	—	—	—	—	10,275	—	—	10,275	—	10,275	
<i>Changes in ownership interest in subsidiaries</i>													
Disposal of a subsidiary	—	—	(5,891)	—	5,891	—	—	—	—	—	—	—	
Acquisition of non-controlling interests	—	—	—	28,022	—	—	—	(8,762)	(11,989)	7,271	(29,770)	(22,499)	
<i>Other</i>													
Transfer to statutory reserves	—	—	1,332	—	(1,332)	—	—	—	—	—	—	—	
At December 31, 2015	1,955,720	21	298,221	30,954	5,012,834	(60,857)	15,538	—	(12,914)	7,239,617	2,190,452	9,430,069	

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

Consolidated Statement of Changes in Equity

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

Attributable to the equity holders of the parent												
	Issued capital (Note 24) RMB'000	Preference shares (Note 24) RMB'000	Statutory reserves (Note 26) RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve (Note 26) RMB'000		Performance shares reserve (Note 26) RMB'000	Reserve of asset classified for sale (Note 22, Note 26) RMB'000		(Premium paid for/ discount on acquisition of non-controlling interests (Note 26) RMB'000)	Total equity RMB'000
						Foreign currency translation reserve (Note 26) RMB'000	Performance shares reserve (Note 26) RMB'000		Reserve of asset classified for sale (Note 22, Note 26) RMB'000	Total RMB'000		
At January 1, 2016	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538	—	(12,914)	7,239,617	2,190,452	9,430,069
Profit for the year	—	—	—	—	515,737	—	—	—	—	515,737	207,871	723,608
Other comprehensive income for the year, net of tax	—	—	—	—	—	39,618	—	—	—	39,618	(3,224)	36,394
Total comprehensive income for the year	—	—	—	—	515,737	39,618	—	—	—	555,355	204,647	760,002
Transactions with owners, recorded directly in equity												
<i>Contributions by and distributions to owners</i>												
Shares issued during the year (Note 24)	103,356	—	—	—	—	—	—	—	—	103,356	—	103,356
Dividends paid to non-controlling interests (US\$0.85 per share) (Note 25)	—	—	—	—	—	—	—	—	—	—	(84,450)	(84,450)
Cost of share-based payments (Note 27)	—	—	—	—	(221,549)	—	—	—	—	(221,549)	—	(221,549)
<i>Changes in ownership interest in subsidiaries</i>												
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	1,754	1,754	(8,671)	(6,917)
<i>Others</i>												
Transfer to statutory reserves	—	—	923	—	(923)	—	—	—	—	—	—	—
Reserve attributable to asset classified as held for sale	—	—	—	—	—	(22,720)	—	—	22,720	—	—	—
At December 31, 2016	2,059,076	21	299,144	30,954	5,506,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812

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

Consolidated Statement of Changes in Equity

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

Attributable to the equity holders of the parent												
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve (Note 26)	Performance shares reserve (Note 26)	Reserve of asset classified as held for sale (Note 22, Note 26)	(Premium paid for)/discount on acquisition of non-controlling interests (Note 26)	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	2,059,076	21	299,144	30,954	5,306,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812
Profit for the year	—	—	—	—	953,922	—	—	—	—	953,922	451,148	1,405,070
Other comprehensive income for the year, net of tax	—	—	—	—	—	(98,980)	—	(22,720)	—	(61,700)	(14,823)	(76,523)
Total comprehensive income for the year	—	—	—	—	953,922	(98,980)	—	(22,720)	—	892,222	436,325	1,328,547
Transactions with owners, recorded directly in equity												
<i>Contributions by and distributions to owners</i>												
Shares issued during the year (Note 24)	22,062	—	—	—	—	—	—	—	—	22,062	—	22,062
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(98,941)	(98,941)
Dividends declared and paid (US\$0.90 per share) (Note 25)	—	—	—	—	(248,844)	—	—	—	—	(248,844)	—	(248,844)
Cost of share-based payments (Note 27)	—	—	—	—	—	—	1,592	—	—	1,592	—	1,592
Exercise of share option	—	—	—	—	—	—	(2,673)	—	—	(2,673)	—	(2,673)
<i>Changes in ownership interests in subsidiaries</i>												
Acquisition of non-controlling interests	—	—	—	(250)	—	—	—	—	(381)	(631)	(7,848)	(8,279)
<i>Other</i>												
Transfer to statutory reserves	—	—	1,882	—	(1,882)	—	—	—	—	—	—	—
At December 31, 2017	2,081,138	21	301,026	30,704	6,009,395	(82,939)	19,758	—	(11,541)	8,347,562	2,631,714	10,979,276
US\$'000	328,805	3	47,560	4,851	949,441	(13,104)	3,122	—	(1,823)	1,318,855	415,792	1,734,647

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

Consolidated Statement of Cash Flows

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

	31.12.2015	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	RMB'000	US\$'000
Operating activities				
Profit before tax	686,138	883,878	1,625,237	256,776
Adjustments:				
Amortization of prepaid operating leases	13,433	12,819	12,366	1,954
Bad debt written off	—	—	10	2
Cost of share-based payments	10,275	5,301	1,592	252
Depreciation of property, plant and equipment	456,002	465,093	431,567	68,184
Depreciation of investment property	—	248	248	39
Dividend income from held for trading investment	—	(943)	(2,532)	(400)
Exchange loss/(gain)	45,354	(3,407)	(8,319)	(1,315)
Fair value (gain)/loss on foreign exchange forward contract	(15,506)	140	—	—
Fair value loss/(gain) on held for trading investment	10,871	243	(12,768)	(2,017)
Finance costs	116,351	79,683	100,439	15,869
(Gain)/loss on disposal of:				
- associate	—	—	(199)	(31)
- joint venture	—	—	(107,976)	(17,059)
- intangibles asset	—	—	(115,235)	(18,206)
- prepaid operating leases	(2,511)	—	—	—
- property, plant and equipment	14,874	14,020	(11,668)	(1,843)
- subsidiaries	13,647	—	(216,115)	(34,145)
Gain on liquidation of joint venture	(348)	—	—	—
Government grants	(19,597)	(36,533)	(28,035)	(4,430)
Interest income	(41,314)	(56,983)	(105,421)	(16,656)
Impairment losses on intangible asset	26,700	1,131	40,000	6,320
Impairment losses on property, plant and equipment	2,873	3,297	20,845	3,293
Impairment losses/(reversal of impairment losses) on trade receivables, net	32,938	3,696	(10,854)	(1,715)
Loss on dilution of equity interest in joint venture	2,848	—	—	—
Property, plant and equipment written off	4,931	5	5,682	898
Share of loss/(profit) of associates and joint ventures, net of tax	2,691	3,612	(10,054)	(1,589)
Write-down/(reversal of write-down) of inventories, net	35,260	(5,171)	(19,901)	(3,144)
Write-back of trade and other payables	(9)	—	(29)	(5)
Write-back of allowance for anticipated losses on development properties	(2,976)	—	—	—
Profit before tax after adjustments	<u>1,392,925</u>	<u>1,370,129</u>	<u>1,588,880</u>	<u>251,032</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>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Changes in working capital				
Decrease/(increase) in inventories	168,176	55,299	(897,437)	(141,789)
Decrease in trade and other receivables	700,571	122,192	31,121	4,917
(Decrease)/increase in trade and other payables	(439,180)	861,488	850,201	134,326
Decrease in development properties	—	—	377	60
Cash flows from operating activities	<u>1,822,492</u>	<u>2,409,108</u>	<u>1,573,142</u>	<u>248,546</u>
Income taxes paid	(135,774)	(133,021)	(202,975)	(32,069)
Net cash flows from operating activities	<u>1,686,718</u>	<u>2,276,087</u>	<u>1,370,167</u>	<u>216,477</u>
Investing activities				
Additional investment in subsidiaries	(22,499)	(9,076)	(8,279)	(1,308)
Additional investment in associates and joint ventures	(2,591)	(1,255)	(75,000)	(11,849)
Dividend received from:				
- held for trading investment	—	943	2,532	400
- joint ventures	1,190	598	754	119
Interest received	46,402	56,734	108,481	17,139
Net cash inflow on liquidation of a joint venture	1,763	—	—	—
Proceeds from disposal of:				
- associate	—	—	1,832	289
- intangible assets	—	—	50,000	7,900
- joint venture	—	—	182,679	28,862
- prepaid operating leases	4,505	—	—	—
- property, plant and equipment	6,602	667	15,640	2,471
- subsidiaries, net of cash disposed	170,703	—	341,602	53,971
Proceeds from government grants	39,558	13,639	50,095	7,915
Purchase of property, plant and equipment	(397,817)	(351,472)	(289,472)	(45,735)
Withdrawal/(placement) of fixed deposits with banks, net	126,688	(282,809)	(254,294)	(40,177)
Net cash flows (used in)/from investing activities	<u>(25,496)</u>	<u>(572,031)</u>	<u>126,570</u>	<u>19,997</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>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Financing activities				
Dividends paid to:				
- equity holders of the parent	(142,007)	(118,193)	(235,947)	(37,278)
- non-controlling interests	(94,899)	(87,975)	(97,009)	(15,327)
Interest paid and discounting on bills receivable	(108,279)	(110,774)	(107,246)	(16,944)
Payment of finance lease liabilities	(85)	(61)	(38)	(6)
Proceeds from:				
- borrowings	2,534,384	1,255,659	1,814,618	286,697
- issue of bonds	398,777	—	—	—
- issue of shares	—	—	6,617	1,045
(Placement)/withdrawal of fixed deposits pledged with banks for banking facilities	(300,564)	300,564	—	—
Repayment of borrowings	<u>(2,772,862)</u>	<u>(2,793,206)</u>	<u>(1,100,133)</u>	<u>(173,813)</u>
Net cash flows (used in)/from financing activities	<u>(485,535)</u>	<u>(1,553,986)</u>	<u>280,862</u>	<u>44,374</u>
Net increase in cash and cash equivalents	1,175,687	150,070	1,777,599	280,848
Cash and cash equivalents at January 1	2,291,345	3,474,364	3,653,914	577,292
Effect of exchange rate changes on balances in foreign currencies	7,332	29,480	(41,189)	(6,507)
Cash and cash equivalents at December 31	<u><u>3,474,364</u></u>	<u><u>3,653,914</u></u>	<u><u>5,390,324</u></u>	<u><u>851,633</u></u>

Significant non-cash transactions

During 2015, 2016 and 2017, certain customers settled their debts with trade bills amounting to RMB 12,032 million, RMB 12,203 million and RMB 14,696 million (US\$2,322 million) respectively. The outstanding trade bills were classified as bills receivable in the financial statements.

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

Notes to the Consolidated Financial Statements

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

1. Corporate information

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended December 31, 2017 were authorized for issue in accordance with a resolution of the directors on April 16, 2018.

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

1.2 Investment in Guangxi Yuchai Machinery Company Limited

The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited, a Sino-foreign joint stock company which manufactures, assembles and sells diesel engines in the People’s Republic of China (the “PRC”). The principal markets for Yuchai’s diesel engines are truck and bus manufacturers in the PRC.

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

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

As at December 31 2017, Yuchai has nine direct and thirty-three indirectly owned subsidiaries, three joint ventures and one associate. Guangxi Yuchai Machinery Monopoly Development Co., Ltd. (“YMMC”) and Guangxi Yuchai Accessories Manufacturing Company Limited (“GYAMC”) are the two most significant subsidiaries of Yuchai. YMMC has thirty wholly-owned subsidiaries (collectively “YMMC Group”) located at various provinces in the PRC. The principal business of YMMC Group are trading and distribution of spare parts of diesel engines and automobiles. GYAMC has one wholly-owned subsidiary (collectively “GYAMC Group”). The principal business of GYAMC Group are sales and manufacturing of spare parts and components of diesel engines. The detailed information of Yuchai’s significant subsidiaries, joint ventures and associates are disclosed in Notes 4, 5 and 6.

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

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)

Relating to Yuchai's equity interest in Jining Yuchai Engine Company Limited

In September 2014, Yuchai transferred its entire 70% shareholding interest in Jining Yuchai Engine Company Limited ("Jining Yuchai") to an independent third party (the "Purchaser") for a consideration of RMB 1.00 Yuan. The other shareholder, Zhejiang Geely Holding Group also transferred its entire 30% shareholding interest in Jining Yuchai. Pursuant to the transfer, Yuchai entered into the following agreements with the Purchaser and Jining Yuchai:

(i) Loan Agreement

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

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

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

(ii) Management Agreement

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

Yuchai through the above-mentioned contractual arrangements has the power to exercise effective control and is able to direct the activities of Jining Yuchai that most significantly affect its economic performance, and has the exposure or rights to receive benefits from Jining Yuchai from its involvement. Accordingly, Yuchai continues to consolidate the financial results of Jining Yuchai for financial year ended at December 2014, 2015 and 2016.

In November 2017, Yuchai acquired the entire equity interest in Jining Yuchai for a cash consideration of RMB 250 from the Purchaser. The acquisition was made pursuant to the irrevocable option to acquire the shares in Jining Yuchai granted to Yuchai.

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 HL Global Enterprises Limited

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

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

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

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

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

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

As of December 31, 2016 and 2017, the Group’s shareholding interest in HLGE remains at 50.2%, net of the ordinary shares held by the Trustee under the Trust.

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

Notes to the Consolidated Financial Statements

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

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

Translation of amounts from Renminbi to US Dollar (“USD”) is solely for the convenience of the reader. Translation of amounts from Renminbi to US Dollar has been made at the rate of RMB 6.3294 = US\$1.00, the rate quoted by the People’s Bank of China at the close of business on February 28, 2018 and all values are rounded to the nearest thousand (“US\$’000”) except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the “Group”) as at December 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.2 Basis of consolidation (cont'd)

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

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

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

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

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

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

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

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)

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

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

(b) Investments in associates and joint ventures

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

(c) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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

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

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

(e) Foreign currency translation

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

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

Transactions and balances

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

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

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

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

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)

Group companies

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

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

(f) Revenue recognition

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

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

Sale of goods

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

Sale of completed development properties

A development property is regarded as sold when the significant risks and rewards have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

Rendering of services

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

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)

Interest income

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

Rental income

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

Dividends

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

(g) Government grants

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

(h) Taxes

Current income tax

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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

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

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

Sales tax

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

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

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

(i) Non-current assets held for sale

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(i) Non-current assets held for sale (cont'd)

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

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

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

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

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

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

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

(k) Property, plant and equipment

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

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

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

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

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

(l) Investment properties

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(l) Investment properties (cont'd)

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

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

(m) Research and development costs

Research costs are expensed as incurred. The Group received research and development subsidies of RMB 26,815 and RMB 60,817 (US\$9,609) for the years ended December 31, 2016 and 2017 respectively.

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. In 2015, 2016 and 2017, capitalized development expenditures are not amortized because the intangible asset has not been completed.

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(n) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss as finance costs. The Group did not have any held-to-maturity investments as of December 31, 2016 and 2017.

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

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

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

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

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

The Group did not have AFS financial assets in 2016 and 2017.

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Derecognition

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

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

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

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.

Impairment of financial assets

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets (cont'd)

Financial assets carried at amortized cost

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

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

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

AFS financial assets

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets (cont'd)

AFS financial assets (cont'd)

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Derecognition

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Offsetting of financial instruments

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

(o) Derivative financial instruments

Initial recognition and subsequent measurement

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

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

The Group does not apply hedge accounting.

(p) Inventories

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(q) Impairment of non-financial assets

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

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

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

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

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

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

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(s) Leases

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

Prepaid operating lease

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

Group as a lessee

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

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

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

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

Group as a lessor

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(t) Borrowing costs

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

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

(u) Provisions

General

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

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

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 3 to 36 months) or mileage (generally 20,000 to 300,000 kilometers), whichever is the lower. For other applications engines, warranties extend for a duration of generally 12 to 24 months. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(v) Pensions and other post-employment benefits

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

(w) Share-based payments

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

Equity-settled transactions

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont'd)

(x) Development properties

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

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

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

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

(y) Segment reporting

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

2.4 Changes in accounting policy and disclosures

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period 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)

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

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

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

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

IFRS Practice Statement 2: Making Materiality Judgements

The Practice Statement (PS) contains non-mandatory guidance to help entities making materiality judgements when preparing general purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements.

The PS comprises guidance in three main areas:

- (i) General characteristics of materiality
- (ii) A four-step process that may be applied in making materiality judgements when preparing financial statements. This process describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure.
- (iii) How to make materiality judgements in specific circumstances, namely, prior period information, errors and covenants and in the context of interim reporting.

Furthermore, the PS discusses the interaction between the materiality judgements an entity is required to make and local laws and regulations. The PS includes examples illustrating how an entity might apply the guidance.

The PS is a non-mandatory document, it does not change or introduce any requirements in IFRS. However, the PS provides helpful guidance for entities making materiality judgements and thus may improve the communication effectiveness of financial statements.

Companies are permitted to apply the guidance in the PS to financial statements prepared any time after September 14, 2017.

The Group believe that appropriate materiality judgements have been made in the preparation of its consolidated financial statements for financial year ended December 31, 2017.

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)

Annual improvements 2014-2016 cycle

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

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

These amendments have no material impact to the Group.

2.5 Standards issued but not yet effective

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

IFRS 9 *Financial Instruments*

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

The Group plans to adopt the new standard on the required effective date without restating prior periods' information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Overall, except for the implementation of a change in the classification and measurement of bills receivable, the Group expects no significant impact on its consolidated statement of financial position and equity.

The Group does not apply hedge accounting.

Notes to the Consolidated Financial Statements

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

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

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

IFRS 9 *Financial Instruments* (cont'd)

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

(a) Classification and measurement

The Group considers business model for managing the financial assets and contractual cash flow characteristics of the financial assets, and conclude that the measurement basis arising from adopting the new classification and measurement model under IFRS 9 as below.

Loans and trade and other receivables that are currently accounted for at amortized cost will continue to be accounted for using amortized cost model under IFRS 9. Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Bills receivable that are currently accounted for at amortized cost will be accounted for at fair value through other comprehensive income under IFRS 9.

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

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant change in the expected loss allowance by adopting the new IFRS 9 compared with Group's current practice.

(c) Other adjustments

In addition to the adjustments described above, on adoption of IFRS 9, the Group does not expect significant adjustments to the other items of the consolidated financial statements.

In summary, the impact of IFRS 9 adoption is expected to result in a decrease in trade and other receivables by RMB 137.3 million (US\$21.7 million) and a decrease in the equity by RMB 137.3 million (US\$21.7 million) as of December 31, 2017.

Notes to the Consolidated Financial Statements

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

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Group has performed a preliminary impact assessment of IFRS 15 based on currently available information. This assessment may be subject to changes arising from ongoing analysis.

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

(a) Warranty obligation

The Group provides certain warranties for both general repairs and maintenance services as part of the sales of goods. For general repairs, such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current practice. For maintenance services, under IFRS 15, such warranties will be accounted for as service-type warranties and, therefore, will be accounted for as a separate performance obligation for which the Group will allocate a portion of the transaction price to this performance obligation.

Upon the adoption of IFRS 15, the Group expects to record an adjustment to the consolidated statement of profit or loss for the financial year ended December 31, 2017 with a decrease in selling and distribution expenses by RMB 195.9 million (US\$31.0 million), a decrease in revenue by RMB 21.1 million (US\$3.3 million) and an increase in cost of sales by RMB 176.8 million (US\$27.9 million). The Group also expects to record an adjustment to the consolidated statement of financial position as at December 31, 2017 with a decrease in provision for product warranty by RMB 19.1 million (US\$3.1million), an increase in contract liability by RMB 21.1 million (US\$3.3 million) and a decrease in retained earnings as at January 1, 2017 by RMB 5.3 million (US\$0.8 million).

Notes to the Consolidated Financial Statements

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

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

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

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

The Group expects the following impact upon the adoption of IFRS 15: (cont'd)

(b) Variable consideration

- *Volume rebates and trade discounts*

The Group provides volume rebates or trade discount to its customers. Currently, the Group recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of volume rebates and trade discounts. Under its existing accounting policy, the Group estimates the expected volume rebates or trade discount using the expected amount of rebates approach and included them in accruals.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group has closely monitored and assessed the provision for volume rebates and trade discounts and does not expect material impact in revenue recognition.

- *Rights of return*

Under IFRS 15, an entity estimates the transaction price and recognizes revenue based on the amounts to which the entity expects to be entitled through the end of the return period, and recognize such amount of expected returns as a refund liability, representing its obligation to return the customer's consideration.

To assess the impact in this regard, the Group has collated the statistics of actual sales return incurred for the past years. Based on the historical records and management estimates, the Group believes the effect from the sales with a right of return on adoption of IFRS 15 is insignificant to the overall financial results of the Group.

(c) Performance obligation

Under IAS 18 *Revenue*, the sale of a certain intangible asset amounting to RMB 115.2 million (US\$18.2 million) was recognized in 2017 as other income, as the requirement for the production milestone was fulfilled.

With the adoption of IFRS 15, management has reviewed and concluded that the Group had significantly performed its obligations in 2015. Therefore, upon the adoption of IFRS 15, it will result in a decrease in other operating income of RMB 115.2 million (US\$18.2 million) and tax expense of RMB 26.0 million (US\$4.1 million) for the financial year ended December 31, 2017, and a corresponding increase in retained earnings of RMB 89.2 million (US\$14.1 million) as at January 1, 2017.

Notes to the Consolidated Financial Statements

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

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

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

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

The Group expects the following impact upon the adoption of IFRS 15: (cont'd)

(d) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgement made when assessing the contracts where the Group has concluded that: it acts as an agent instead of a principal, there is a significant financing component, and service-type warranties are provided. In addition, as required by IFRS 15, the Group will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017, the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

In summary, with the adoption of IFRS 15, the Group expects to record a decrease in its selling and distribution expenses by RMB 195.9 million (US\$31.0 million), a decrease in revenue by RMB 21.1 million (US\$3.3 million), a decrease in other operating income by RMB 115.2 million (US\$18.2 million), a decrease in tax expense by RMB 26.0 million (US\$ 4.1 million) and an increase in cost of sales by RMB 176.8 million (US\$27.9 million) to its consolidated statement of profit or loss for the financial year ended December 31, 2017. The Group also expects to record a decrease in provision for product warranty by RMB 19.1 million (US\$3.1 million), an increase in contract liability by RMB 21.1 million (US\$3.3 million) and an increase in retained earnings by RMB 83.9 million (US\$ 13.3 million) as at January 1, 2017.

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

The Group's Equity Incentive Plan is considered an equity-settled share-based payment transactions and all the share options granted under this plan were vested in July 2017. The Group does not plan to elect for retrospective application and does not expect the amendments to have any material impact to the Group.

IFRS 16 Leases

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

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

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

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

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

The Group plans to adopt the new standard on the required effective date. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Notes to the Consolidated Financial Statements

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

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

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* ("IFRS 17"), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* ("IFRS 4") that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

The Group is currently assessing the impact of the interpretation and plans to adopt the interpretation on the required effective date.

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts:

- (i) Temporary exemption from IFRS 9

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

- (ii) The overlay approach

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

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)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (cont'd)

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

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

Transfers of Investment Property - Amendments to IAS 40

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

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

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

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

Annual improvements 2014-2016 cycle (issued in December 2016)

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Group.

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

The amendments clarify that:

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

Notes to the Consolidated Financial Statements

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

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

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

Annual improvements 2014-2016 cycle (issued in December 2016) (cont'd)

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

The amendments clarify that: (cont'd)

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

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

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

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendment is effective for annual periods beginning on or after January 1, 2019. The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

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

Modification or exchange of a financial liability that does not result in derecognition

The IASB clarified that the requirements in IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

The gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognized in profit or loss.

Notes to the Consolidated Financial Statements

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

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

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

Annual improvements 2014-2016 cycle (issued in December 2016) (cont'd)

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (cont'd)

Modification or exchange of a financial liability that does not result in derecognition (cont'd)

This clarification relates to the application of IFRS 9 and does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

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

Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendment is effective for annual periods beginning on or after January 1, 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

The amendments will eliminate ambiguity in the wording of the standard.

The amendment do not have any impact on the Group.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations – Previously held Interests in a joint operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not plan to 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)

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

Annual improvements 2015-2017 cycle (issued in December 2017) (cont'd)

IFRS 11 Joint Arrangements – Previously held Interests in a joint operation

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not plan to early adopt the amendments.

IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

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

IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

Notes to the Consolidated Financial Statements

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

3. Significant accounting judgments, estimates and assumptions

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

3.1 Judgments

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

Consolidation of a structured entity

As discussed in Note 1.2 above, based on the contractual terms, the Group assessed that the voting rights in Jining Yuchai are not the dominant factor in deciding who controls Jining Yuchai. Also, it is assessed that there is insufficient equity financing to allow Jining Yuchai to finance its activities without the non-equity financial support from Yuchai. Therefore, the Group concluded that Jining Yuchai is a structured entity under IFRS 10 and, through the contractual arrangements, has the power to exercise effective control and is able to direct the activities of Jining Yuchai that most significantly affect its economic performance, and has the exposure or rights to receive benefits from Jining Yuchai from its involvement. Therefore, Jining Yuchai was consolidated in the Group's consolidated financial statements for financial year 2015 and 2016. In 2017, Yuchai acquired 100% equity interest of Jining Yuchai from the Purchaser, Jining Yuchai became a wholly owned subsidiary of the Group and consolidated in the Group's consolidated financial statements for financial year 2017.

Derecognition of bills receivable

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

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2016 and 2017 are RMB 308,207 and RMB 315,390 (US\$49,829) respectively. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 182,726 (US\$28,869) for year ended December 31, 2017 (2016: RMB 189,589).

Notes to the Consolidated Financial Statements

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

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

3.2 Estimates and assumptions

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

Impairment of non-financial assets

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

Impairment of trade receivables

The Group makes impairment on trade receivables based on an assessment of the recoverability of trade receivables. Impairment is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgment and estimates. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and impairment loss in the period in which such estimate has been changed. The carrying amounts of impairment of trade receivables as of December 31, 2016 and 2017 were RMB 54,634 and RMB 43,775 (US\$6,916) respectively.

Allowance for inventory obsolescence

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of allowance for inventory obsolescence as at December 31, 2016 and 2017 were RMB 126,796 and RMB 106,895 (US\$16,889) respectively.

Notes to the Consolidated Financial Statements

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

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

3.2 Estimates and assumptions (cont'd)

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(u). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2016 and 2017 were RMB 238,850 and RMB 290,306 (US\$45,866) 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 recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of deferred tax liabilities for withholding tax payable as of December 31, 2016 and 2017 are RMB 103,347 and RMB 100,572 (US\$15,890) 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.

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	
		31.12.2016	31.12.2017
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Equipment Mould Company Limited (formerly known as Guangxi Yulin Yuchai Accessories Manufacturing Company Limited)	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited ^①	People's Republic of China	—	76.4
Yuchai Remanufacturing Services (Suzhou) Co., Ltd.	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

Note:

^① In September 2014, Yuchai disposed its 70% equity interest in Jining Yuchai. Subsequently, through contractual arrangements, Yuchai obtained 100% control in Jining Yuchai.

In November 2017, Yuchai acquired 100% equity interest in Jining Yuchai, As a result, Jining Yuchai became a wholly owned subsidiary of Yuchai. For details, please refer to Note 1.2.

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%
	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Accumulated balances of material NCI			
Yuchai	2,253,207	2,437,215	385,063
Profit allocated to material NCI			
Yuchai	129,088	210,013	290,497
Dividends paid to material NCI			
Yuchai	100,412	83,677	98,941

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

	<u>31.12.2015</u>
	<u>Yuchai</u>
	<u>RMB'000</u>
Summarized statement of comprehensive income	
Revenue	13,671,931
Profit for the year, representing total comprehensive income for the year	547,216
Attributable to NCI	129,088
Summarized statement of cash flows	
Operating	1,742,989
Investing	(33,515)
Financing	(659,691)
Net increase in cash and cash equivalents	<u>1,049,783</u>

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

	<u>31.12.2016</u>
	Yuchai
	<u>RMB'000</u>
Summarized statement of financial position	
Current assets	12,448,174
Non-current assets, excluding goodwill	4,876,773
Goodwill	212,636
Current liabilities	(7,957,306)
Non-current liabilities	(461,712)
Net assets	<u>9,118,565</u>
Total equity	<u>9,118,565</u>
Attributable to NCI	<u>2,253,207</u>
Summarized statement of comprehensive income	
Revenue	13,598,487
Profit for the year, representing total comprehensive income for the year	<u>726,379</u>
Attributable to NCI	<u>210,013</u>
Summarized statement of cash flows	
Operating	2,329,367
Investing	(293,477)
Financing	(1,697,173)
Net increase in cash and cash equivalents	<u>338,717</u>

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

	31.12.2017	
	Yuchai	
	RMB'000	US\$'000
Summarized statement of financial position		
Current assets	14,717,316	2,325,231
Non-current assets, excluding goodwill	4,693,931	741,608
Goodwill	212,636	33,595
Current liabilities	(9,344,836)	(1,476,417)
Non-current liabilities	(495,429)	(78,274)
Net assets	9,783,618	1,545,743
Total equity	9,783,618	1,545,743
Attributable to NCI	2,437,215	385,063
Summarized statement of comprehensive income		
Revenue	16,165,245	2,553,993
Profit for the year, representing total comprehensive income for the year	1,045,330	165,155
Attributable to NCI	290,497	45,896
Summarized statement of cash flows		
Operating	1,385,156	218,845
Investing	(165,817)	(26,198)
Financing	221,660	35,021
Net increase in cash and cash equivalents	1,440,999	227,668

Significant restrictions

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

Cash and cash equivalents of RMB 4,710,158 (US\$744,171) (2016: RMB 3,270,182) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

Disposal of a subsidiary in 2015

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

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

	31.12.2015
	RMB'000
Property, plant and equipment	66,597
Land use rights	17,661
Inventories	6,354
Trade receivables and other receivables	111,651
Deferred taxation	244
Cash and bank balances	18,797
	<u>221,304</u>
Payables and accruals	(17,161)
Provision for taxation	(996)
Carrying value of net assets	<u>203,147</u>
Total consideration	189,500
Net asset derecognized	(203,147)
Loss on disposal of a subsidiary (Note 8.2(b))	<u>(13,647)</u>
Total consideration	189,500
Cash and bank balances of the subsidiary	(18,797)
Net cash inflow on disposal of the subsidiary	<u>170,703</u>

Acquisition of ownership in subsidiaries, without loss of control in 2015

- (i) In July 2015, Yuchai's subsidiary company, YMMC acquired 40.00% of equity interest in Yunnan Yuchai Machinery Industry Company Limited ("YMMC Yunnan") by way of offsetting trade receivables from the third party of RMB 18.3 million. As a result, YMMC Yunnan became wholly owned subsidiary of YMMC.
- (ii) In October 2015, Yuchai acquired 2.86% of equity interest in Guangxi Yulin Yuchai Accessories Manufacturing Company Limited which was renamed to Guangxi Yuchai Equipment Mould Company Limited ("YEMC") in November 2017, from State Holding Company with a purchase consideration of RMB 4.2 million. As a result, YEMC became wholly owned subsidiary of Yuchai.

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

Acquisition of additional interest in a joint venture in 2016

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

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

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

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

Acquisition of ownership in subsidiaries, without loss of control in 2016

In September 2016, YMMC acquired 47.53% of equity interest in Sichuan Yuchai Machinery Industry Company Limited ("YMMC Sichuan") from non-controlling interest for a cash consideration of RMB 8.9 million. As a result, YMMC Sichuan became wholly owned subsidiary of YMMC.

Acquisition of ownership in subsidiaries, without loss of control in 2017

- (i) In June 2017, GYAMC acquired 25% of equity interest in Guangxi Yuchai Crankshaft Co., Limited ("Crankshaft") from non-controlling interest for a cash consideration of RMB 1.3 million. As a result, Crankshaft became wholly owned subsidiary of GYAMC.
- (ii) In October 2017, YMMC acquired 49% of equity interest in Hunan Yuchai Machinery Industry Company Limited ("YMMC Hunan") from non-controlling interest for a cash consideration of RMB 6.7 million. As a result, YMMC Hunan became wholly owned subsidiary of YMMC.
- (iii) In November 2017, Yuchai acquired 100% issued shares in Jining Yuchai for a cash consideration of RMB 250. As a result, Jining Yuchai became wholly owned subsidiary of Yuchai.

Prior to the acquisition, Yuchai control 100% of Jining Yuchai through various contractual agreements and consolidated Jining Yuchai's financial results in the Group's consolidated financial statements. The acquisition would not have financial impact in the Group's profit or loss for the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

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

4. Investments in subsidiaries (cont'd)

Disposal of subsidiaries in 2017

On November 22, 2017, HLGE disposed its entire shareholding in its wholly owned subsidiary, LKN Investment International Pte. Ltd (“LKNII”) together with LKNII’s wholly owned subsidiary, Shanghai Hutai Real Estate Development Co., Ltd to a third party for a cash consideration of RMB 395.0 million (US\$62.4 million).

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

	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>US\$'000</u>
Property, plant and equipment (Note 11)	104,844	16,565
Trade receivables and other receivables	3,257	514
Cash and bank balances	9,153	1,446
	<u>117,254</u>	<u>18,525</u>
Trade and other payables	(3,737)	(590)
Provision for taxation	(44)	(7)
Deferred taxation	(588)	(93)
Carrying value of net assets	<u>112,885</u>	<u>17,835</u>
Gain on disposal:		
Total consideration	395,000	62,407
Less: Cost of disposal	(47,532)	(7,510)
Total consideration less cost of disposal	<u>347,468</u>	<u>54,897</u>
Net assets derecognized	(112,885)	(17,835)
Realization of foreign translation reserves upon disposal	(18,468)	(2,917)
Gain on disposal of the subsidiaries (Note 8.2(a))	<u>216,115</u>	<u>34,145</u>
Total consideration less cost of disposal	<u>347,468</u>	<u>54,897</u>
Add: Transaction cost unpaid	33,287	5,260
Less: Retention sum receivables	(30,000)	(4,740)
Cash and bank balances of the subsidiaries	(9,153)	(1,446)
Net cash inflow on disposal of the subsidiaries	<u>341,602</u>	<u>53,971</u>

Notes to the Consolidated Financial Statements

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

5. Investment in associates

The Group's investment in associates are summarized as below:

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Share of profit/(loss) of associates, net of tax	245	456	(28)	(4)
		<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Carrying amount of investment		3,836	2,185	345

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest	
			<u>31.12.2016</u>	<u>31.12.2017</u>
			%	%
Held by subsidiaries				
Sinjori Sdn. Bhd.	Property investment and development	Malaysia	14.0	14.0
Guangxi Yuchai Quan Xing Machinery Co., Ltd.	Manufacture spare part and sales of auto spare part, diesel engine & spare part, metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	People's Republic of China	15.3	15.3
Guangxi Yulin Yuchai Property Management Co., Ltd. ("Property Management") ⁽ⁱ⁾	Property management	People's Republic of China	22.9	–

Note:

⁽ⁱ⁾ In August 2017, YEMC disposed its equity interest in Property Management to State Holding Company for a consideration of RMB 1,832 (US\$289). As a result, the Group recognized net gain on disposal of associate of RMB199 (US\$31) in the Group's profit or loss for the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures

	31.12.2015	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	RMB'000	US\$'000
Share of (loss)/profit of joint ventures, net of tax:				
Y & C Engine Co., Ltd	(8,978)	2,039	17,755	2,805
Copthorne Hotel Qingdao Co., Ltd ^① .	6,941	(4,465)	—	—
MTU Yuchai Power Co., Ltd.	—	—	(8,487)	(1,341)
Other joint ventures.	(899)	(1,642)	814	129
	<u>(2,936)</u>	<u>(4,068)</u>	<u>10,082</u>	<u>1,593</u>
		31.12.2016	31.12.2017	31.12.2017
		RMB'000	RMB'000	US\$'000
Carrying amount of investments:				
Y & C Engine Co., Ltd		169,064	122,235	19,312
MTU Yuchai Power Co., Ltd		—	66,513	10,509
Other joint ventures		7,287	7,354	1,162
		<u>176,351</u>	<u>196,102</u>	<u>30,983</u>

Note:

- ^① Since February 23, 2016, the investment in Copthorne Hotel Qingdao Co., Ltd had been classified as asset held for sale in view of proposed disposal. The disposal was completed on October 19, 2017. (Refer to Note 22 for details).

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest	
			31.12.2016 %	31.12.2017 %
Held by subsidiaries				
Copthorne Hotel Qingdao Co., Ltd. ("Copthorne Qingdao")	Owns and operates a hotel in Qingdao, PRC	People's Republic of China	30.1	–
HL Heritage Sdn. Bhd	Property development and property investment holdings	Malaysia	30.1	30.1
Shanghai Hengshan Equatorial Hotel Management Co., Ltd	Hotel and property management	People's Republic of China	24.6	24.6
Y & C Engine Co., Ltd ("Y&C")	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	34.4	34.4
Guangxi Yineng IOT Science & Technology Co., Ltd	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	15.3	15.3
MTU Yuchai Power Co., Ltd ("MTU Yuchai Power") ^①	Manufacture off-road diesel engines	People's Republic of China	–	38.2

Note:

^① MTU Yuchai Power was incorporated on January 18, 2017. During 2017, Yuchai had invested RMB 75.0 million (US\$ 11.8 million) into the joint venture.

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

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

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

In 2016 and 2017, the Group performed impairment evaluation of its investments in joint ventures, no impairment was required.

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

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

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

	31.12.2016	
	Y & C	Total
	RMB'000	RMB'000
Non-current assets	616,397	616,397
Current assets		
- Cash and bank balances	99,014	99,014
- Others	215,246	215,246
Total assets	930,657	930,657
Non-current liabilities	(60,382)	(60,382)
Current liabilities		
- Interest-bearing loans and borrowings	(68,800)	(68,800)
- Others	(425,777)	(425,777)
Total liabilities	(554,959)	(554,959)
Equity	375,698	375,698
Proportion of the Group's ownership	45%	
Group's share of net assets	169,064	
Carrying amount of significant joint ventures	169,064	169,064
Carrying amount of other joint ventures		7,287
Carrying amount of the investment in joint ventures		176,351

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

	2016		
	Y & C	Copthorne Qingdao*	Total
	RMB'000	RMB'000	RMB'000
Revenue	553,878	3,674	557,552
Depreciation and amortization	(22,087)	(2,797)	(24,884)
Interest expense	(14,012)	(1,337)	(15,349)
Profit/(loss) for the year, representing total comprehensive loss for the year	4,531	(6,664)	(2,133)
Proportion of the Group's ownership	45%	60%	
Group's share of profit/(loss)	2,039	(3,998)	
Depreciation arising from fair value adjustment during purchase price allocation	—	(467)	
Group's share of profit/(loss) of significant joint ventures	2,039	(4,465)	(2,426)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			(1,642)
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year			(4,068)

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

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

	31.12.2017			
	Y & C	MTU	Total	Total
	RMB'000	RMB'000	RMB'000	US\$'000
Non-current assets	734,270	32,015	766,285	121,068
Current assets				
- Cash and bank balances	199,925	113,055	312,980	49,449
- Others	367,293	22,775	390,068	61,628
Total assets	1,301,488	167,845	1,469,333	232,144
Non-current liabilities	(13,543)	—	(13,543)	(2,140)
Current liabilities				
- Interest-bearing loans and borrowings	(13,500)	—	(13,500)	(2,133)
- Others	(842,765)	(34,820)	(877,585)	(138,652)
Total liabilities	(869,808)	(34,820)	(904,628)	(142,925)
Equity	431,680	133,025	564,705	89,219
Proportion of the Group's ownership	45%	50%		
Group's share of net assets	194,256	66,513		
Unrealized profit on transactions with joint venture	(72,021)	—		
Carrying amount of significant joint ventures	122,235	66,513	188,748	29,821
Carrying amount of other joint ventures			7,354	1,162
Carrying amount of the investment in joint ventures			196,102	30,983

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

	31.12.2017			
	Y & C	MTU	Total	Total
	RMB'000	RMB'000	RMB'000	US\$'000
Revenue	1,331,823	—	1,331,823	210,419
Depreciation and amortization	(20,831)	(227)	(21,058)	(3,327)
Interest expense	(28,663)	(343)	(29,006)	(4,583)
Profit/(loss) for the year, representing total comprehensive income for the year	55,982	(16,973)	39,009	6,163
Proportion of the Group's ownership	45%	50%		
Group's share of profit	25,192	(8,487)		
Unrealized profit on transactions with joint venture	(7,437)	—		
Group's share of profit of significant joint ventures	17,755	(8,487)	9,268	1,464
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			814	129
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			10,082	1,593

Note:

As of December 31, 2017, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 30,000 (US\$4,740) (2016: RMB 10,982).

As of December 31, 2017, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB Nil (US\$Nil) (2016: RMB 1,440).

As of December 31, 2017, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 23,288 (US\$3,679) (2016: RMB 5,113).

Notes to the Consolidated Financial Statements

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

6. Investment in joint ventures (cont'd)

Significant restrictions

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

The Group's share of cash and cash equivalents of RMB 67,238 (US\$10,623) (2016: RMB 26,437) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

As at December 31, 2017, the Group's share of restricted trade receivables of RMB 6,766 (US\$1,069) (2016: RMB 34,403) that were factored to large banks in China. The Group's joint venture have obligation to the banks for its trade receivables with recourse.

As at December 31, 2017, the Group's share of restricted cash of RMB 80,452 (US\$12,711) (2016: RMB 18,119) which was used as collateral by the banks for the issuance of bills to suppliers.

As at December 31, 2017, the Group's share of bills receivables of RMB 12,150 (US\$1,920) (2016: RMB Nil) which was used as collateral by banks for the issuance of bills to suppliers.

7. Revenue

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Sale of goods	13,634,395	13,542,568	16,085,640	2,541,416
Sale of development property	—	—	710	112
Revenue from hotel and restaurant operations	94,053	110,718	127,971	20,219
Rental income	4,989	11,554	8,121	1,283
Revenue	<u>13,733,437</u>	<u>13,664,840</u>	<u>16,222,442</u>	<u>2,563,030</u>

8.1 Depreciation and amortization, shipping and handling expenses

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Cost of sales	319,962	322,289	307,102	48,520
Research and development expenses	58,204	56,812	48,291	7,630
Selling, general and administrative expenses	91,269	99,059	88,788	14,027
	<u>469,435</u>	<u>478,160</u>	<u>444,181</u>	<u>70,177</u>

Notes to the Consolidated Financial Statements

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

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

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Selling, general and administrative expenses	172,865	159,023	208,197	32,894

8.2 (a) Other operating income

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Interest income	41,314	56,983	105,421	16,656
Dividend income from held for trading investment	—	943	2,532	400
Gain on disposal of subsidiaries (Note 4)	—	—	216,115	34,145
Gain on disposal of joint venture (Note 22)	—	—	107,976	17,059
Gain on disposal of associate	—	—	199	31
Gain on disposal of property, plant and equipment	—	—	11,668	1,843
Gain on disposal of intangible assets	—	—	115,235	18,206
Gain on disposal of prepaid operating leases	2,511	—	—	—
Gain on liquidation of joint venture	348	—	—	—
Government grants	31,205	41,515	34,337	5,425
Fair value gain on held for trading investment	—	—	12,768	2,017
Fair value gain on foreign exchange forward contract	15,506	—	—	—
Write-back of trade and other payables	9	—	29	5
Write-back of allowance for anticipated losses on development properties	2,976	—	—	—
Bad debt recovered	4,257	—	—	—
Foreign exchange gain, net	—	—	30,943	4,889
Others	8,805	18,513	10,129	1,600
	<u>106,931</u>	<u>117,954</u>	<u>647,352</u>	<u>102,276</u>

Notes to the Consolidated Financial Statements

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

8.2 (b) Other operating expenses

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Loss on disposal of property, plant and equipment	14,874	14,020	—	—
Loss on disposal of subsidiary	13,647	—	—	—
Loss on dilution of equity interest in joint venture	2,848	—	—	—
Foreign exchange loss, net	45,354	4,006	—	—
Fair value loss on held for trading investment	10,871	243	—	—
Fair value loss on foreign exchange forward contract	—	140	—	—
Goodwill written off	—	1,131	—	—
Others	—	3,059	22,719	3,589
	<u>87,594</u>	<u>22,599</u>	<u>22,719</u>	<u>3,589</u>

8.3 Finance costs

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Bank term loans	57,212	34,477	53,888	8,514
Corporate bonds	54,116	27,581	—	—
Bills discounting	1,651	13,068	42,179	6,664
Bank charges	3,364	4,552	4,367	690
Finance lease	8	5	5	1
	<u>116,351</u>	<u>79,683</u>	<u>100,439</u>	<u>15,869</u>

8.4 Staff costs

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Wages and salaries	839,288	922,847	1,158,320	183,006
Contribution to defined contribution plans	297,926	275,703	258,190	40,792
Executive bonuses	32,190	44,921	59,908	9,465
Staff welfare	73,908	81,223	76,392	12,069
Staff severance cost	8,385	12,864	107,732	17,021
Cost of share-based payment	10,275	5,301	1,592	252
Others	9,062	20,340	1,870	295
	<u>1,271,034</u>	<u>1,363,199</u>	<u>1,664,004</u>	<u>262,900</u>

Notes to the Consolidated Financial Statements

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

9. Income tax expense

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Current income tax				
- Current year	104,584	104,149	197,264	31,167
- (Over)/under provision in respect of prior years	(47)	7,175	(2,867)	(453)
Deferred tax				
- Movement in temporary differences	72,281	48,946	25,770	4,071
Consolidated income tax expense reported in the statement of profit or loss	<u>176,818</u>	<u>160,270</u>	<u>220,167</u>	<u>34,785</u>

Income tax expense reported in the consolidated statement of profit or loss differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2017, 2016 and 2015 for the following reasons:

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Accounting profit before tax	686,138	883,878	1,625,237	256,776
Computed tax expense of 15%	102,921	132,582	243,786	38,517
Adjustments resulting from:				
Non-deductible expenses	9,815	7,039	21,982	3,473
Tax-exempt income	(5,574)	(178)	(58,324)	(9,215)
Utilization of deferred tax benefits previously not recognized	(2,001)	(3,157)	(7,374)	(1,165)
Deferred tax benefits not recognized	61,299	9,045	8,084	1,277
Tax credits for research and development expense	(27,087)	(34,482)	(34,428)	(5,439)
Tax rate differential	24,249	25,321	21,061	3,328
(Over)/under provision in respect of previous years current tax	(47)	7,175	(2,867)	(453)
Withholding tax expense	13,126	16,925	29,447	4,652
Others	117	—	(1,200)	(190)
Total	<u>176,818</u>	<u>160,270</u>	<u>220,167</u>	<u>34,785</u>

Notes to the Consolidated Financial Statements

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

9. Income tax expense (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000	31.12.2015 RMB'000	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
Deferred tax liabilities							
Accelerated tax depreciation	(10,521)	(15,122)	(2,389)	(10,852)	373	(4,601)	(727)
Unremitted earnings from overseas source income	(437)	—	—	—	(25)	—	—
Interest receivable	(1,453)	(774)	(122)	—	(1,471)	679	107
Derivatives not designated as hedges- foreign exchange forward contract	—	—	—	(2,326)	2,326	—	—
PRC withholding tax on dividend income ⁽ⁱ⁾	(103,347)	(100,572)	(15,890)	(12,549)	(16,628)	(29,031)	(4,587)
	<u>(115,758)</u>	<u>(116,468)</u>	<u>(18,401)</u>	<u>(25,727)</u>	<u>(15,425)</u>	<u>(32,953)</u>	<u>(5,207)</u>
Deferred tax assets							
Impairment of property, plant and equipment	2,876	12,319	1,946	409	(9,005)	9,443	1,492
Write-down of inventories	21,209	17,493	2,764	(3,867)	(4,421)	(3,716)	(587)
Allowance for doubtful account receivables	9,340	7,376	1,165	(3,361)	7,196	(1,964)	(310)
Accruals	185,952	204,730	32,346	17,253	(46,350)	18,778	2,967
Deferred income	70,931	51,679	8,165	(44,232)	10,045	(19,252)	(3,042)
Write down of intangible asset	—	—	—	(15,000)	—	—	—
Others	17,899	21,793	3,443	2,244	9,014	3,894	616
	<u>308,207</u>	<u>315,390</u>	<u>49,829</u>	<u>(46,554)</u>	<u>(33,521)</u>	<u>7,183</u>	<u>1,136</u>
				<u>(72,281)</u>	<u>(48,946)</u>	<u>(25,770)</u>	<u>(4,071)</u>

Notes to the Consolidated Financial Statements

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

9. Income tax expense (cont'd)

Deferred tax (cont'd)

Note:

^① The movement of PRC withholding tax on dividend income is as follows:

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
At January 1	(113,805)	(103,347)	(16,328)
Provision made to consolidated statement of profit or loss	(16,628)	(29,031)	(4,587)
Utilization	27,107	31,806	5,025
Translation differences	(21)	—	—
December 31	<u>(103,347)</u>	<u>(100,572)</u>	<u>(15,890)</u>

The CIT law provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profit earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a deferred tax liability for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2017, the deferred tax liability for withholding tax payable was RMB 100,572 (US\$15,890) (2016: RMB 103,347). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 228,008 (US\$36,024) (2016: RMB 212,176).

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Deferred tax assets	308,207	315,390	49,829
Deferred tax liabilities	<u>(115,758)</u>	<u>(116,468)</u>	<u>(18,401)</u>
	<u>192,449</u>	<u>198,922</u>	<u>31,428</u>

Notes to the Consolidated Financial Statements

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

9. Income tax expense (cont'd)

Deferred tax (cont'd)

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Unutilized tax losses	515,207	479,410	75,743
Unutilized capital allowances and investment allowances	106,781	107,266	16,947
Other unrecognized temporary differences relating to provisions and deferred grants	224,087	230,269	36,381
	<u>846,075</u>	<u>816,945</u>	<u>129,071</u>

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

10. Earnings per share

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

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

Basic earnings per share

The calculation of basic earnings per share is based on:

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Profit attributable to ordinary equity holders of the parent	341,108	515,737	953,922	150,713
Weighted average number of ordinary shares	<u>38,712,282</u>	<u>40,016,808</u>	<u>40,764,569</u>	<u>40,764,569</u>

Notes to the Consolidated Financial Statements

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

10. Earnings per share (cont'd)

Diluted earnings per share

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>
Weighted average number of shares issued, used in the calculation of basic earnings per share	38,712,282	40,016,808	40,764,569
Diluted effect of share options	—	—	—
Weighted average number of ordinary shares adjusted for effect of dilution	<u>38,712,282</u>	<u>40,016,808</u>	<u>40,764,569</u>

In 2017, 470,000 (2016: 530,000; 2015: 570,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

11. Property, plant and equipment

	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At January 1, 2016	13,301	2,307,160	328,117	4,969,820	181,448	114,681	7,914,527
Additions	—	23,621	232,474	8,514	17,757	2,627	284,993
Acquisition as subsidiary	—	—	—	—	29	—	29
Disposals	—	(16,492)	—	(114,861)	(6,966)	(3,263)	(141,582)
Transfers	—	37,001	(224,440)	186,620	142	296	(381)
Write-off	—	—	—	—	(5)	—	(5)
Translation difference	429	356	—	(337)	56	84	588
At December 31, 2016 and January 1, 2017	13,730	2,351,646	336,151	5,049,756	192,461	114,425	8,058,169
Additions	—	1,109	226,977	7,464	16,763	9,120	261,433
Disposal of subsidiary	—	(107,632)	—	(35,490)	(12,473)	(255)	(155,850)
Disposals	—	(3,310)	—	(10,064)	(3,718)	(5,481)	(22,573)
Transfers	—	81,486	(280,358)	198,872	—	—	—
Write-off	—	(2,385)	(1,674)	(53,792)	(15,307)	(599)	(73,757)
Translation difference	263	1,954	—	88	2,228	(74)	4,459
At December 31, 2017	<u>13,993</u>	<u>2,322,868</u>	<u>281,096</u>	<u>5,156,834</u>	<u>179,954</u>	<u>117,136</u>	<u>8,071,881</u>

Notes to the Consolidated Financial Statements

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

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

	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment							
At January 1, 2016	460	572,857	—	2,831,362	110,175	70,129	3,584,983
Charge for the year	—	78,504	—	359,046	21,248	6,295	465,093
Disposals	—	(8,720)	—	(104,346)	(6,514)	(2,277)	(121,857)
Transfers	—	(24)	—	—	—	—	(24)
Impairment loss	—	—	—	3,297	—	—	3,297
Translation difference	7	(331)	—	(160)	(78)	54	(508)
At December 31, 2016 and January 1, 2017	467	642,286	—	3,089,199	124,831	74,201	3,930,984
Charge for the year	—	78,347	—	325,979	21,202	6,039	431,567
Disposal of subsidiary	—	(26,031)	—	(15,040)	(9,695)	(240)	(51,006)
Disposals	—	(1,879)	—	(10,191)	(1,798)	(4,733)	(18,601)
Write-off	—	(1,377)	—	(51,087)	(15,012)	(599)	(68,075)
Impairment loss	—	—	1,055	19,790	—	—	20,845
Translation difference	17	104	—	62	1,998	(32)	2,149
At December 31, 2017	484	691,450	1,055	3,358,712	121,526	74,636	4,247,863
Net book value							
At December 31, 2016	13,263	1,709,360	336,151	1,960,557	67,630	40,224	4,127,185
At December 31, 2017	13,509	1,631,418	280,041	1,798,122	58,428	42,500	3,824,018
US\$'000	2,134	257,752	44,245	284,091	9,231	6,715	604,168

An impairment loss of RMB 20,845 (US\$ 3,293) (2016: RMB 3,297; 2015: RMB 2,873) was charged to the consolidated statement of profit or loss under "Cost of sales" for the Group's property, plant and equipment within the Yuchai segment. The impairment loss for 2015, 2016 and 2017 was due to assets that were not in use.

As of December 31, 2017, property, plant and equipment with a carrying amount of RMB 82,710 (US\$13,068) (2016: RMB 84,360) are pledged to secure bank facilities.

Finance leases

The carrying value of property, plant and equipment held under finance leases at December 31, 2017 was RMB 96 (US\$15) (2016: RMB 144). In 2017, there was no addition of property, plant and equipment under finance leases (2016: RMB86).

Notes to the Consolidated Financial Statements

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

12. Investment property

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Cost			
At January 1	31,323	31,776	5,020
Translation difference	453	1,169	185
At December 31	<u>31,776</u>	<u>32,944</u>	<u>5,205</u>
Accumulated depreciation			
At January 1	23,886	24,478	3,867
Charge for the year	248	248	39
Translation difference	344	784	125
At December 31	<u>24,478</u>	<u>25,510</u>	<u>4,031</u>
Net carrying amount	<u>7,298</u>	<u>7,434</u>	<u>1,174</u>
Fair value	<u>10,149</u>	<u>10,557</u>	<u>1,668</u>
Consolidated statements of profit or loss:			
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	<u>(571)</u>	<u>(508)</u>	<u>(80)</u>

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

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

Notes to the Consolidated Financial Statements

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

12. Investment property (cont'd)

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

	<u>Valuation techniques</u>	<u>Unobservable input</u>	<u>Inter-relationship between key unobservable inputs and fair value measurement</u>
2017	Market comparison and cost method	Comparable price: - Land: RMB 24 to RMB 34 (US\$4 to US\$5) per square foot - Retail: RMB 352 to RMB 859 (US\$56 to US\$139) per square foot	The estimated fair value increases with higher comparable price
2016	Market comparison and cost method	Comparable price: - Land: RMB 24 to RMB 34 per square foot - Retail: RMB 337 to RMB 847 per square foot	The estimated fair value increases with higher comparable price

13. Prepaid operating leases

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Current	12,546	12,546	1,982
Non-current	379,636	367,270	58,026
Total	<u>392,182</u>	<u>379,816</u>	<u>60,008</u>

Notes to the Consolidated Financial Statements

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

13. Prepaid operating leases (cont'd)

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Cost			
At January 1 and December 31	529,577	529,577	83,669
Accumulated amortization			
At January 1	124,576	137,395	21,707
Charge for the year	12,819	12,366	1,954
At December 31	137,395	149,761	23,661
Net carrying amount	<u>392,182</u>	<u>379,816</u>	<u>60,008</u>

As of December 31, 2017, prepaid operating leases with a carrying amount of RMB Nil (US\$Nil) (2016: RMB 71,022) are pledged to secure bank facilities.

14. Goodwill

	<u>RMB'000</u>	<u>US\$'000</u>
Cost		
At January 1, 2016, December 31, 2016, January 1, 2017 and December 31, 2017	218,311	34,492
Accumulated impairment		
At January 1, 2016, December 31, 2017, January 1, 2017 and December 31, 2017	5,675	897
Net carrying amount		
At December 31, 2016 and December 31, 2017	<u>212,636</u>	<u>33,595</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 was fully impaired in 2008.

Notes to the Consolidated Financial Statements

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

14. Goodwill (cont'd)

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Yuchai	<u>212,636</u>	<u>212,636</u>	<u>33,595</u>

Yuchai unit

The Group performs its impairment test annually. The recoverable amount of the unit was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period. The business of Yuchai is stable since the Group has control in 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections was 12.84% (2016: 11.73%). 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 unit is most sensitive to the following assumptions:

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

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

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

Growth rate estimate – Growth rate is based on management's estimate with reference to general available indication of long-term gross domestic product growth rate of China. The long term rates used to extrapolate the budget for Yuchai are 6.5% for 2017 and 2016 respectively.

Notes to the Consolidated Financial Statements

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

14. Goodwill (cont'd)

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 2.37% (2016: 11.63%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 14.82% (2016: 12.52%) in the Yuchai unit would result in impairment.

Growth rate assumptions – Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 2.98% (2016: 5.32%) in the long-term growth rate in Yuchai unit would result in impairment.

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

15. Intangible assets

	Development costs
	RMB'000
Cost	
At January 1, 2016, December 31, 2016 and January 1, 2017	168,526
Disposal	(31,704)
At December 31, 2017	<u>136,822</u>
Impairment	
At January 1, 2016, December 31, 2016 and January 1, 2017	86,700
Charge to consolidated statement of profit or loss	40,000
At December 31, 2017	<u>126,700</u>
Net carrying amount	
At December 31, 2016	<u>81,826</u>
At December 31, 2017	<u>10,122</u>
US\$'000	<u>1,599</u>

Notes to the Consolidated Financial Statements

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

15. Intangible assets (cont'd)

In 2017, upon the completion of engineering design services for the heavy-duty engine platform to the Group's joint venture company, Y&C, the respective technology development costs were transferred to consolidated statement of profit or loss under the line item "other operating income" to record the net gain from the project.

At December 31, 2017, The Group has an intangible asset representing technology development costs held by Jining Yuchai with carrying amount of RMB 10,122 (US\$1,599) (2016: RMB 50,122).

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

In 2015, the management performed impairment review based on the updated business plan after due considerations of a slowdown in the PRC economy. As a result, subsequent to the impairment loss of RMB 60,000 recorded in 2014, a further impairment loss of RMB 26,700 was charged to consolidated statement of profit or loss under the line item "selling, distribution and administrative costs" in respect of this technology development costs.

In 2016, management performed impairment review based on the updated business plan and no impairment loss was recognized.

In 2017, due to the stringent emission standard requirement, management revised its business plan and shortened the expected useful life of the intangible assets from 15 years to 10 years. As a result, a further impairment loss of RMB 40,000 (US\$6,320) was charged to consolidated statement of profit or loss under the line item "selling, distribution and administrative costs".

The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. The recoverable amount of the intangible asset was based on its value in use. The Group used a 10 years forecast, using pre-tax discount rate of 13.69%. The revised business plan projected 6 years, year 2023 to reach the commercial deployment of the technology. The revenue growth rate is estimated at 15.6% in 2023 and thereafter management assumed no revenue growth from 2024 to 2027. In 2016, the Group used a 15 years forecast, using pre-tax discount rate of 12.98%. The business plan projected 5 years, year 2021 to reach the commercial deployment of the technology. The revenue growth rate is estimated at 6.7% in 2022 and thereafter management assumed no revenue growth from 2023 to 2031.

If the pre-tax discount rate increased by 1% (2016: 1%) from management estimates, the Group's impairment loss on intangible asset in Jining Yuchai would increase by RMB 6,731 (US\$1,063) (2016: RMB 2,443).

Notes to the Consolidated Financial Statements

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

16. Other financial liabilities

(a) Other liabilities

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Derivative not designated as hedges – foreign exchange forward contract	140	–	–
Finance lease liabilities (Note 31)	108	79	12
Total	<u>248</u>	<u>79</u>	<u>12</u>
	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Current	178	33	5
Non-current	70	46	7
Total	<u>248</u>	<u>79</u>	<u>12</u>

Foreign exchange forward contract

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

(b) Interest-bearing loans and borrowings

	<u>Effective</u>		<u>31.12.2016</u>
	<u>interest rate</u>	<u>Maturity</u>	<u>RMB'000</u>
	%		
Current			
Renminbi denominated loans	3.94	2017	753,750
USD denominated loans	3.70	2017	104,055
Singapore Dollar denominated loans ⁽ⁱ⁾	1.81	2017	33,616
Malaysian Ringgit denominated loans	5.90	2017	2,715
			<u>894,136</u>
Non-current			
Malaysian Ringgit denominated loans	5.90	2020	<u>16,270</u>

Notes to the Consolidated Financial Statements

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

16. Other financial liabilities (cont'd)

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

	Effective interest rate	Maturity	31.12.2017 RMB'000	31.12.2017 US\$'000
	%			
Current				
Renminbi denominated loans	3.99	2018	1,600,000	252,789
Non-current				
Malaysian Ringgit denominated loans	5.95	2020	11,685	1,846
Singapore Dollar denominated loans ⁽ⁱⁱ⁾	1.88	2020	14,656	2,316
			<u>26,341</u>	<u>4,162</u>

Note:

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

⁽ⁱⁱ⁾ The loans comprise:

Issuer bank	Facility limit	Usage RMB'000
December 31, 2016		
Bank of Tokyo-Mitsubishi, UFJ Ltd	S\$ 30 million	16,808
Sumitomo Mitsui Banking Corporation	US\$ 30 million	16,808
		<u>33,616</u>
December 31, 2017		
Bank of Tokyo-Mitsubishi, UFJ Ltd	S\$ 30 million	14,656
	US\$'000	<u>2,316</u>

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

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

Notes to the Consolidated Financial Statements

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

16. Other financial liabilities (cont'd)

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

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

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

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

On March 31, 2017, the Company entered into an uncommitted and unsecured multi-currency revolving credit facility agreement with SMBC for an aggregate value of US\$30.0 million to refinance the US\$30.0 million facility that matured on March 18, 2017. The facility is available for three years from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not less than US\$200 million and the ratio of the Company's consolidated total 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.

17. Deferred grants

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
At January 1	360,783	337,889	53,384
Received during the year	13,639	50,095	7,915
Released to consolidated statement of profit or loss	(36,533)	(34,337)	(5,425)
At December 31	<u>337,889</u>	<u>353,647</u>	<u>55,874</u>
Current (Note 28)	21,939	22,270	3,519
Non-current	<u>315,950</u>	<u>331,377</u>	<u>52,355</u>
	<u>337,889</u>	<u>353,647</u>	<u>55,874</u>

Notes to the Consolidated Financial Statements

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

18. Inventories

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Raw materials	904,737	1,188,396	187,758
Work in progress	26,807	34,924	5,518
Finished goods	732,335	1,349,425	213,199
Total inventories at the lower of cost and net realizable value	<u>1,663,879</u>	<u>2,572,745</u>	<u>406,475</u>
	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Inventories recognized as an expense in cost of sales	9,566,699	9,308,265	1,741,391
Inclusive of the following charge/(credit):			
- Inventories written down	59,339	48,202	2,764
- Reversal of write-down of inventories	<u>(24,079)</u>	<u>(53,373)</u>	<u>(5,908)</u>

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

19. Other assets

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
<u>Current</u>			
Development properties	23,378	23,833	3,765
Held for trading investment, quoted equity securities ⁽ⁱ⁾	12,181	24,714	3,905
	<u>35,559</u>	<u>48,547</u>	<u>7,670</u>
	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
<u>Non-current</u>			
Deferred expenditure ⁽ⁱⁱ⁾	<u>—</u>	<u>303</u>	<u>48</u>

⁽ⁱ⁾ The quoted equity securities are listed on the Singapore Exchange.

⁽ⁱⁱ⁾ The deferred expenditure relate to the legal fees for an option to purchase for sale of lands entered with a buyer in 2016 and will be transferred to the profit or loss upon completion of the sale.

Notes to the Consolidated Financial Statements

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

20. Trade and bill receivables

	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
Trade receivables, net	241,168	212,104	33,511
Bill receivables ^①	6,816,088	6,819,440	1,077,423
Total (Note 36)	<u>7,057,256</u>	<u>7,031,544</u>	<u>1,110,934</u>

^① As of December 31, 2017, bill receivables include bills issued by joint venture and other related parties amounted to RMB 69,816 (US\$11,030) (2016: RMB 45,000) and RMB 23,832 (US\$3,765) (2016: RMB 3,968) respectively.

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

As of December 31, 2016 and 2017, outstanding bill receivables discounted with banks for which the Group retained a recourse obligation totaled RMB 817,391 and RMB 1,505,759 (US\$237,899) respectively. All bill receivables discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2016 and 2017, outstanding bill receivables endorsed to suppliers with recourse obligation were RMB 851,099 and RMB 1,316,136 (US\$207,940) respectively.

An analysis of the impairment of trade receivables is as follows:

	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
At January 1	51,288	54,634	8,632
Charge/(credit) to consolidated statement of profit or loss	3,696	(10,854)	(1,715)
Written off	(346)	(5)	(1)
Translation differences	(4)	—	—
At December 31	<u>54,634</u>	<u>43,775</u>	<u>6,916</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.

As of December 31, 2016 and 2017, gross trade receivables due from a major customer, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 34,307 and RMB 24,580 (US\$3,884), respectively. See Note 33 for further discussion of customer concentration risk.

Notes to the Consolidated Financial Statements

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

20. Trade and bill receivables (cont'd)

	Total RMB'000	Neither past due nor impaired RMB'000	Past due but not impaired			
			0 – 90 days RMB'000	91-180 days RMB'000	181-365 days RMB'000	>365 days RMB'000
At 31.12.2017	7,031,544	6,919,347	59,966	21,457	29,857	917
At 31.12.2016	7,057,256	6,995,511	37,902	12,062	9,654	2,127

21. Other receivables and prepayments

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
Staff advances	7,501	5,107	807
Associates and joint ventures	182,671	13,230	2,090
Other related parties	10,096	37,275	5,889
Interest receivables	6,775	4,345	686
Bills receivable in transit	29,134	32,013	5,058
Retention sums ^①	—	30,000	4,740
Others	10,510	10,705	1,692
Loans and receivables (Note 36)	246,687	132,675	20,962
Tax recoverable	102,024	177,819	28,094
Prepayments	37,654	73,896	11,675
Total	386,365	384,390	60,731

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

Note:

^① Retention sums relate to money deposits in an escrow account pending finalization of tax payable for the disposal of LKNII.

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
Other receivables (non-current) ^① (Note 36)	1,588	620	98

^① Non-current non-trade receivables due from joint ventures and associate are unsecured, non-interest bearing and are to be settled in cash. These amounts are not expected to be repaid within the next 12 months.

Notes to the Consolidated Financial Statements

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

22. Asset classified as held for sale

Sales of 60% of the issued ordinary shares in the capital of Copthorne Qingdao

The Group's subsidiary company, LKN Investment International Pte Ltd, together with the joint venture partner of Copthorne Qingdao, had on February 23, 2016, listed the entire equity interest in Copthorne Qingdao on the Shanghai United Assets and Equity Exchange for sale and the sale was re-listed on March 28, 2016.

As a result, the investment in Copthorne Qingdao was classified as asset held for sale and the Group discontinued the use of equity method to recognize the interest in Copthorne Qingdao. Consequently, the Group only shared the loss incurred by Copthorne Qingdao up to February 23, 2016. As at December 31, 2016, the carrying amount of interest in joint venture, representing assets classified as held for sale is RMB 89,381 and related foreign translation reserve is RMB 22,720.

On October 19, 2017, the Group completed the disposal of its investment in Copthorne Qingdao and recognized gain on disposal of RMB 107,976 (US\$17,059) in the Group's profit or loss for the year ended December 31, 2017.

The value of asset and related reserves of disposal recorded in the consolidated financial statements and the cash flow effect of the disposals were:

	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>US\$'000</u>
Interest in joint venture, representing asset classified as held for sale	89,381	14,122
Gain on disposal:		
Total consideration less cost of disposal	182,679	28,862
Interest in joint venture derecognized	(89,381)	(14,122)
Realization of foreign currency translation reserves upon disposal	22,720	3,590
Waiver of amount due by joint venture	(8,042)	(1,271)
Gain on disposal of joint venture (Note 8.2(a))	<u>107,976</u>	<u>17,059</u>
Total consideration less cost of disposal, representing net cash inflow on disposal of the joint venture	<u>182,679</u>	<u>28,862</u>

Notes to the Consolidated Financial Statements

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

23. Cash and cash equivalents

Short-term bank deposits

Restricted cash

Long-term bank deposits

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Non-current			
Long-term bank deposits ⁽ⁱ⁾	—	70,000	11,060
Current			
Cash and cash equivalents	3,653,914	5,390,324	851,633
Short-term bank deposits ⁽ⁱⁱ⁾	363,043	514,074	81,220
Restricted cash	36,000	54,809	8,659
	<u>4,052,957</u>	<u>5,959,207</u>	<u>941,512</u>
Cash and bank balances	<u>4,052,957</u>	<u>6,029,207</u>	<u>952,572</u>

Note:

⁽ⁱ⁾ In 2017, YMMC placed two-year time deposits of RMB 70,000 (US\$11,060) (2016: RMB Nil) at annual interest rate range from 2.94% to 3.15% with banks. These long-term deposits are not considered as cash equivalents.

⁽ⁱⁱ⁾ Short-term bank deposits relate to bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity. The interest rate of these bank deposits as of December 31, 2017 for the Group ranged from 1.01% to 1.97% (2016: 0.83% to 1.76%). These short-term bank deposits are not considered as cash equivalents.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rate of the bank deposits (excluding long-term and short-term bank deposits) as at December 31, 2017 for the Group ranged from 0.87% to 3.28% (2016: 0.86% to 2.10%).

As at December 31, 2017, the Group's restricted cash comprised of RMB 45,288 (US\$7,155) which was used as collateral by the banks for the issuance of bills to suppliers and RMB 9,521 (US\$1,504) relates to retention money deposited in a joint signatory account with the buyer of LKNII pending finalization of tax payable for the disposal of LKNII. The Group's share of joint venture's restricted cash is disclosed in Note 6.

As at December 31, 2016, the Group's restricted cash of RMB 36,000 was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2016 and 2017, the Group had RMB 318,565 and RMB 474,384 (US\$74,949) respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2015, 2016 and 2017 were RMB368, RMB 392 and RMB 179 (US\$28) respectively.

Notes to the Consolidated Financial Statements

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

24. Issued capital and Preference shares

	<u>31.12.2016</u>	<u>31.12.2017</u>
	<u>thousands</u>	<u>thousands</u>
Issued capital		
Authorized shares		
Ordinary share of par value US\$0.10 each	100,000	100,000
	<u>Number of shares</u>	<u>RMB'000</u>
Ordinary shares issued and fully paid		
At January 1, 2016	39,298,340	1,955,720
Issued of shares as dividend payment (Note 25)	1,413,760	103,356
At December 31, 2016 and January 1, 2017	40,712,100	2,059,076
Issued of shares as dividend payment (Note 25)	99,790	12,897
Issued of shares upon exercised of share options (Note 27)	46,400	9,165
At December 31, 2017	40,858,290	2,081,138
US\$'000		328,805
	<u>31.12.2016</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>US\$'000</u>
Special share issued and fully paid		
One special share issued and fully paid at US\$0.10 per share	*	*
Non-redeemable convertible cumulative preference shares	21	3

* Less than RMB 1 (US\$1)

On July 13, 2017, based on the elections by shareholders, the dividend of US\$0.90 per share for the financial year 2016 was paid in the form of approximately US\$34.7 million in cash and 99,790 shares, at the volume weighted average trading price of US\$19.0329 per share, with total value equivalent to RMB 12,897 (US\$2,038).

On June 29, 2016, based on the elections by shareholders, the dividend of US\$0.85 per share for the financial year 2015 was paid in the form of approximately US\$17.8 million in cash and 1,413,760 shares, at the volume weighted average trading price of US\$11.0227 per share, with total value equivalent to RMB 103,356.

In 2017, the Company issued 46,400 shares pursuant to the exercised of share option granted under the Company's Equity Incentive Plan.

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

Notes to the Consolidated Financial Statements

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

24. Issued capital and Preference shares (cont'd)

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

Preference shares

HLGE issued 197,141,190 non-redeemable convertible cumulative preference shares ("NCCPS") at an issue price of S\$0.02 each on July 4, 2006, expiring on the 10th anniversary of the NCCPS issue date, and 197,011,794 NCCPS have been converted into ordinary shares in the capital of HLGE.

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

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

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

The NCCPS are not listed and quoted on the Official List of the Singapore Exchange. However, the holders of the NCCPS are able to exercise their rights to convert the NCCPS into new ordinary shares at the adjusted NCCPS conversion ratio of one (1) new ordinary share for every ten (10) NCCPS following the completion of the HLGE's share consolidation exercise in May 2015, subject to the terms and conditions of the NCCPS. Such new ordinary shares will be listed and quoted on the Official List of the Singapore Exchange when issued.

In accordance with the terms and conditions of the NCCPS, the rights of NCCPS holders to convert all or any of their NCCPS into fully paid ordinary shares in the capital of the HLGE has lapsed on July 4, 2016 (being the date of expiry of the NCCPS Conversion Period). NCCPS are perpetual securities and there is no mandatory conversion of the NCCPS upon the expiry of the NCCPS Conversion Period.

In 2016, HLGE issued a total of 2,899 new ordinary shares, pursuant to the conversion of 28,998 NCCPS, at an issue price of S\$0.02 for each NCCPS. The NCCPS conversion ratio is one (1) new ordinary share for every ten (10) NCCPS converted.

Notes to the Consolidated Financial Statements

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

25. Dividends declared and paid

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2017: US\$0.90 per share (2016: US\$0.85 per share)	221,549	248,844	39,316
Dividend paid in cash	118,193	235,947	37,278
Dividend paid in shares (Note 24)	103,356	12,897	2,038
	<u>221,549</u>	<u>248,844</u>	<u>39,316</u>

26. Reserves

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
<u>Statutory reserve</u>			
Statutory general reserve ⁽ⁱ⁾			
At January 1	272,515	273,438	43,202
Transfer from retained earnings	923	1,882	297
At December 31	<u>273,438</u>	<u>275,320</u>	<u>43,499</u>
General surplus reserve ⁽ⁱⁱ⁾			
At January 1 and December 31	25,706	25,706	4,061
Total	<u>299,144</u>	<u>301,026</u>	<u>47,560</u>

Note:

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

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

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

Notes to the Consolidated Financial Statements

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

26. Reserves (cont'd)

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
<u>Other components of equity</u>			
Foreign currency translation reserve ⁽ⁱ⁾	(43,959)	(82,939)	(13,104)
Performance shares reserve ⁽ⁱⁱ⁾	20,839	19,758	3,122
Reserve of asset classified as held for sale	22,720	—	—
(Premium paid for)/discount on acquisition of non- controlling interests	<u>(11,160)</u>	<u>(11,541)</u>	<u>(1,823)</u>
Total	<u><u>(11,560)</u></u>	<u><u>(74,722)</u></u>	<u><u>(11,805)</u></u>

⁽ⁱ⁾ Foreign currency translation reserve

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

⁽ⁱⁱ⁾ Performance shares reserve

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

27. Share-based payment

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

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

- (1) one year after the date of grant for up to 33% of the shares over which the options are exercisable;
- (2) two years after the date of grant for up to 66% (including (1) above) of the shares over which the options are exercisable; and
- (3) three years after the date of grant for up to 100% (including (1) and (2) above) of the shares over which the options are exercisable.

Notes to the Consolidated Financial Statements

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

27. Share-based payment (cont'd)

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Expense arising from equity-settled share-based payment transactions	10,275	5,301	1,592	252
Total expense arising from share-based payment transactions	<u>10,275</u>	<u>5,301</u>	<u>1,592</u>	<u>252</u>

Movements during the year

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

	<u>Number of</u> <u>share options</u>	<u>WAEP</u>	<u>Number of</u> <u>share options</u>	<u>WAEP</u>
	<u>2016</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
Outstanding at January 1	570,000	US\$21.11 dollar	530,000	US\$21.11 dollar
Exercised during the year	—	—	(46,400)	US\$21.11 dollar
Cancelled during the year	(40,000)	US\$21.11 dollar	(13,600)	US\$21.11 dollar
Outstanding at December 31	<u>530,000</u>	US\$21.11 dollar	<u>470,000</u>	US\$21.11 dollar
Exercisable at December 31	<u>353,333</u>	US\$21.11 dollar	<u>470,000</u>	US\$21.11 dollar

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

Fair value of share options and assumptions

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

Notes to the Consolidated Financial Statements

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

27. Share-based payment (cont'd)

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

The exercise price for options outstanding as at December 31, 2017 was US\$21.11 dollar (2016: US\$21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2017 was 6.6 (2016: 7.6) years.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

There are no market conditions associated with the share options granted. Service conditions and non-market performance conditions are not taken into account in the measurement of the fair value of the service to be received at the grant date.

28. Trade and other payables

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Trade and bills payables ⁽ⁱ⁾	4,672,750	5,177,123	817,948
Other payables	362,856	366,604	57,921
Accrued expenses	841,942	843,447	133,258
Accrued staff costs	406,261	622,893	98,413
Dividend payable	37,851	39,786	6,286
Associates and joint ventures	91,439	102,111	16,133
Other related parties	120,619	125,411	19,814
Financial liabilities at amortized cost (Note 36)	6,533,718	7,277,375	1,149,773
Other tax payable	42,750	51,387	8,119
Trade and other payables with liquidity risk (Note 33)	6,576,468	7,328,762	1,157,892
Deferred grants (Note 17)	21,939	22,270	3,519
Deferred income ⁽ⁱⁱ⁾	170,000	—	—
Advance from customers	76,636	117,117	18,503
Total trade and other payables (current)	<u>6,845,043</u>	<u>7,468,149</u>	<u>1,179,914</u>

⁽ⁱ⁾ As of December 31, 2017, the trade and bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 63,600 (US\$10,048) (2016: RMB 50), RMB 8,560 (US\$1,352) (2016: RMB 12,210) and RMB 114,749 (US\$18,129) (2016: RMB 133,708) respectively.

⁽ⁱⁱ⁾ This relates to the Group's transfer of technology know-how to a joint venture. Upon completion of engineering design services for the heavy-duty engine platform for the joint venture in 2017, revenue has been recognized in the consolidated statement of profit or loss under the line item "other operating income".

Notes to the Consolidated Financial Statements

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

28. Trade and other payables (cont'd)

	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
Provision for bonus ⁽ⁱ⁾	133,928	148,287	23,428
Deferred income ⁽ⁱⁱ⁾	2,844	8,060	1,274
Other payables (non-current) (Note 33, Note 36)	136,772	156,347	24,702

⁽ⁱ⁾ The provision is not expected to be settled within next 12 months.

⁽ⁱⁱ⁾ This relates to progress payments received for sale of lands and will be credited to profit and loss upon completion of the sale.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- For terms and conditions relating to related parties, refer to Note 30.

29. Provision for product warranty

	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
At January 1	233,577	238,850	37,737
Provision made	350,803	412,514	65,174
Provision utilized	(345,530)	(361,058)	(57,045)
At December 31	238,850	290,306	45,866

Notes to the Consolidated Financial Statements

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

30. Related party disclosures

The ultimate parent

As of December 31, 2017, the controlling shareholder of the Company, HLA, indirectly owned 16,360,845, or 40.0% (2016: 16,360,845 or 40.2%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.3% (2016: 23.4%) of the ordinary shares in the capital of the Company and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly owned subsidiary, Well Summit Investments Limited, approximately 16.7% (2016: 16.8%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of RMB 32, RMB 34 and RMB 34 (US\$5) during the financial years ended December 31, 2015, 2016 and 2017 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2017, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2016: 17.3%) of the ordinary shares in the capital of the Company.

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

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Sales				
- Materials/engines to State Holding Company, its subsidiaries and affiliates	516,679	447,509	455,061	71,896
- Hospitality and restaurant service charged to State Holding Company, its subsidiaries and affiliates	3,247	4,761	4,454	704
- Diesel engines and materials to associates and joint ventures	156,444	219,724	412,591	65,186
Purchase				
- Purchase of materials and supplies from subsidiaries and affiliates of State Holding Company	1,181,852	1,028,358	1,221,421	192,976
- Materials and supplies/engines from associates and joint ventures	90,354	308,610	914,211	144,439

Notes to the Consolidated Financial Statements

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

30. Related party disclosures (cont'd)

The following provides the significant transactions that have been entered into with related parties for the relevant financial year. (cont'd)

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Others				
- Delivery expense charged by subsidiaries of State Holding Company	164,690	143,077	192,399	30,398
- Storage, distribution and handling expenses charged by a subsidiary of State Holding Company	30,462	50,181	18,007	2,845
- Property management service charged by an associate/ a subsidiary of SHC ⁽ⁱ⁾	23,359	20,976	22,212	3,509
- Leasing expenses charged by State Holding Company	12,951	4,715	8,676	1,371
- Consultancy fees charged by State Holding Company	—	10,026	12,264	1,938
- General and administrative expenses charged by State Holding Company	3,141	4,283	7,951	1,256
- General and administrative expenses charged by affiliates of HLA	6,271	6,887	6,913	1,092
- Charged by joint ventures for service provided	—	2,121	2,543	402
- Charged to subsidiaries of State Holding Company for service provided	—	8,873	21,274	3,361
- Charged to a joint venture for service provided	—	—	14,241	2,250
- Rental income charged to State Holding Company and its subsidiaries	619	5,454	4,483	708
- Purchases of vehicles/machineries from State Holding Company and its subsidiary	1,963	—	52,443	8,286
- Purchases of additional shareholding in a subsidiary from State Holding Company ⁽ⁱ⁾	4,170	—	1,335	211
- Disposal of shareholding in an associate to State Holding Company ⁽ⁱ⁾	—	—	1,833	290
- Sales of an intangible asset to a joint venture	—	—	220,000	34,758

Notes to the Consolidated Financial Statements

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

30. Related party disclosures (cont'd)

Note:

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

In June 2017, GYAMC acquired 25% of equity interest in Crankshaft from State Holding Company with a purchase consideration of RMB 1.3 million (US\$0.2 million).

⁽ⁱⁱ⁾ In August 2017, YEMC disposed its 30% equity interest in Property Management to State Holding Company for a consideration of RMB 1.9 million (US\$0.3 million).

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

Terms and conditions of transactions with related parties

The transactions with related parties are made at terms agreed between the parties. Outstanding balances at the year-end are unsecured and interest free.

Compensation of key management personnel of the Group

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Short-term employee benefits	27,331	31,975	40,831	6,451
Contribution to defined contribution plans	305	415	385	61
Cost of share-based payment	8,477	4,387	1,294	204
	<u>36,113</u>	<u>36,777</u>	<u>42,510</u>	<u>6,716</u>

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

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies

Operating lease commitments - Group as lessee

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

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Within one year			
- With related parties	800	5,578	881
- With third parties	11,338	14,058	2,221
After one year but not more than five years			
- With related parties	1,399	1,724	272
- With third parties	12,537	14,003	2,212
More than five years			
- With third parties	114	—	—
	<u>26,188</u>	<u>35,363</u>	<u>5,586</u>

The minimum lease payments recognized as an expense for the financial year ended December 31, 2015, 2016 and 2017 amounted to RMB 60,201, RMB 54,617 and RMB 54,671 (US\$8,638).

Operating lease commitments - Group as lessor

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

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

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
Within one year			
- With related parties	102	184	29
- With third parties	1,624	1,438	227
After one year but not more than five years			
- With related parties	—	268	42
- With third parties	1,855	2,491	394
More than five years			
- With third parties	268	1,310	207
	<u>3,849</u>	<u>5,691</u>	<u>899</u>

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies (cont'd)

Finance lease commitments

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

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

	31.12.2016		31.12.2017			
	Minimum lease payments	Present value of payments	Minimum lease payments		Present value of payments	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Not later than one year	43	38	33	5	33	5
Later than one year but not later than five years	70	70	46	7	46	7
Total minimum lease payments	113	108	79	12	79	12
Less: Amount representing finance charges	(5)	*	*	*	*	*
Present value of minimum lease payments	108	108	79	12	79	12

* Less than RMB 1 (US\$1)

Capital commitments

As of December 31, 2016 and 2017, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid amounting to RMB 427,089 and RMB 409,487 (US\$64,696) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2016 and 2017, the Group has commitment of RMB 75,000 and RMB Nil (US\$ Nil) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2016 and 2017, Yuchai had issued irrevocable letter of credits of RMB 29,729 and RMB 1,905 (US\$301), respectively.

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies (cont'd)

Product liability

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

Environmental liability

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

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

32. Segment information

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

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

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

Notes to the Consolidated Financial Statements

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

32. Segment information (cont'd)

Year ended December 31, 2015	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue	13,671,931	61,506	—	—	13,733,437
Results					
Interest income	35,557	1,415	10,003	(5,661)	41,314
Interest expense	(110,618)	(7,595)	(435)	5,661	(112,987)
Impairment of property, plant and equipment	(2,873)	—	—	—	(2,873)
Impairment of technology development cost	(26,700)	—	—	—	(26,700)
Staff severance cost	(8,385)	—	—	—	(8,385)
Depreciation and amortization	(458,759)	(10,458)	(218)	—	(469,435)
Share of (loss)/profit of associates and joint ventures, net of tax	(10,230)	7,539	—	—	(2,691)
Income tax expense	(161,731)	(2,491)	(12,596) ⁽¹⁾	—	(176,818)
Segment profit after income tax	583,115	6,473	(80,268)	—	509,320

Notes to the Consolidated Financial Statements

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

32. Segment information (cont'd)

Year ended December 31, 2016	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue	13,598,487	66,353	—	—	13,664,840
Results					
Interest income	51,235	1,919	10,080	(6,251)	56,983
Interest expense	(73,028)	(7,706)	(648)	6,251	(75,131)
Impairment of property, plant and equipment	(3,297)	—	—	—	(3,297)
Staff severance costs	(12,864)	—	—	—	(12,864)
Depreciation and amortization	(467,177)	(10,744)	(239)	—	(478,160)
Share of profit/(loss) of associates and joint ventures, net of tax	112	(3,724)	—	—	(3,612)
Income tax expense	(141,272)	(2,281)	(16,717) ⁽¹⁾	—	(160,270)
Segment profit after income tax	765,039	(4,548)	(36,883)	—	723,608
Total assets	17,537,583	449,994	2,111,248	(1,502,319)	18,596,506
Total liabilities	(8,419,018)	(369,124)	(151,472)	328,920	(8,610,694)
Other disclosures					
Investment in joint ventures	173,781	2,570	—	—	176,351
Capital expenditure	282,284	2,623	86	—	284,993

Notes to the Consolidated Financial Statements

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

32. Segment information (cont'd)

Year ended December 31, 2017	Yuchai	HLGE	Corporate	Eliminations	Consolidated financial statements	Consolidated financial statements
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US\$'000
Revenue						
Total external revenue	16,165,245	57,197	—	—	16,222,442	2,563,030
Results						
Interest income	94,760	1,803	11,833	(2,975)	105,421	16,656
Interest expense	(94,794)	(3,983)	(270)	2,975	(96,072)	(15,179)
Gain on disposal of intangible assets	115,235	—	—	—	115,235	18,206
Gain on disposal of subsidiaries	—	216,115	—	—	216,115	34,145
Gain on disposal of joint venture	—	107,976	—	—	107,976	17,059
Impairment of property, plant and equipment	(20,845)	—	—	—	(20,845)	(3,293)
Impairment of technology development cost	(40,000)	—	—	—	(40,000)	(6,320)
Staff severance cost	(107,732)	—	—	—	(107,732)	(17,021)
Depreciation and amortization	(433,921)	(9,990)	(270)	—	(444,181)	(70,177)
Share of profit of associates and joint venture	9,255	799	—	—	10,054	1,589
Income tax expense	(190,573)	(461)	(29,133) ⁽¹⁾	—	(220,167)	(34,785)
Segment profit after tax	1,089,233	322,481	(6,644)	—	1,405,070	221,991
Total assets	19,623,882	451,096	2,444,012	(1,503,931)	21,015,059	3,320,229
Total liabilities	(9,840,265)	(66,920)	(128,591) ⁽²⁾	(7)	(10,035,783)	(1,585,582)
Other disclosures						
Investment in joint ventures	193,476	2,626	—	—	196,102	30,983
Capital expenditure	259,068	975	1,390	—	261,433	41,305

Note:

⁽¹⁾ This relates mainly to the withholding tax provisions for dividends from Yuchai.

⁽²⁾ Included here are mainly the cumulative withholding tax provision for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai.

Notes to the Consolidated Financial Statements

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

32. Segment information (cont'd)

Geographic information

Revenue from external customers:

	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
People's Republic of China	13,630,979	13,508,721	16,116,356	2,546,269
Other countries	102,458	156,119	106,086	16,761
	<u>13,733,437</u>	<u>13,664,840</u>	<u>16,222,442</u>	<u>2,563,030</u>

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

Revenue from one customer group amounted to RMB 4,839,617 (US\$764,625) (2016: RMB 3,580,856; 2015: RMB 2,900,332), arising from sales by Yuchai segment.

Non-current assets

	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>US\$'000</u>
People's Republic of China	4,893,338	4,524,988	714,916
Other countries	95,430	94,779	14,974
	<u>4,988,768</u>	<u>4,619,767</u>	<u>729,890</u>

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

33. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and bank deposits that derive directly from its operations. The Group also holds held for trading investment and enters into derivative transactions.

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

Notes to the Consolidated Financial Statements

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2016 and 2017.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at December 31, 2017.

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank deposits and loans and borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Group are disclosed in Note 16(b). As certain interest rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

Interest rate sensitivity

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

If interest rate had been 50 (2016: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2017 of the Group would increase/decrease by RMB 22,015 (US\$3,478) (2016: increase/decrease by RMB 15,712).

Notes to the Consolidated Financial Statements

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

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's sales, purchases and financial liabilities that are denominated in currencies other than the respective functional currencies of entities within the Group. The Group also holds cash and bank balances and other investments denominated in foreign currencies. The currencies giving rise to this risk are primarily the Singapore Dollar, Renminbi, US Dollar and Euro.

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

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

	31.12.2016				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Held for trading investment	12,181	—	—	—	—
Trade and other receivables	957	9,232	15,032	31,679	982
Cash and bank balances	117,763	3,841	7,247	—	—
Financial liabilities	(33,686)	—	(104,055)	—	—
Trade and other payables	(12,991)	(10,763)	(5,873)	(1,410)	—
Net assets/(liabilities)	84,224	2,310	(87,649)	30,269	982
	31.12.2017				
	Singapore Dollar	Euro	US Dollar	Renminbi	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Held for trading investment	24,714	—	—	—	—
Trade and other receivables	725	—	34,727	469	—
Cash and bank balances	418,875	1,486	16,068	—	498
Financial liabilities	(14,715)	—	—	—	—
Trade and other payables	(13,748)	(10,857)	(5,574)	(35,505)	(24)
Net assets/(liabilities)	415,851	(9,371)	45,221	(35,036)	474
US\$'000	65,701	(1,481)	7,145	(5,535)	75

Notes to the Consolidated Financial Statements

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

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

Foreign currency risk (cont'd)

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
Singapore Dollar	8,422	41,585	6,570
Euro	231	(937)	(148)
US Dollar	(8,765)	4,522	714
Renminbi	3,027	(3,504)	(554)

Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

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

	31.12.2016	31.12.2017	31.12.2017
	RMB'000	RMB'000	US\$'000
Statement of profit or loss	1,218	2,471	390

Credit risk

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

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

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

Credit risk (cont'd)

Trade receivables

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

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

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

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

At December 31, 2017, the Group had top 20 customers (2016: top 20 customers) that owed the Group more than RMB 57,220 (US\$9,040) (2016: RMB 151,033) and accounted for approximately 22.4% (2016: 51.1%) of trade receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 44 customers (2016: 38 customers) with balances greater than RMB 1,000 (US\$158) accounting for over 73.8% (2016: 79.6%) of total trade receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20 and Note 21. The Group's share of trade receivables of a joint venture which was used as collateral as security is disclosed in Note 6.

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

Liquidity risk

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

Notes to the Consolidated Financial Statements

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

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

Liquidity risk (cont'd)

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

As at December 31, 2016	One year or less	Two to five years	More than five years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Trade and bills receivables	7,111,890	—	—	7,111,890
Other receivables, excluding tax recoverable	246,687	1,588	—	248,275
Cash and bank balances	4,052,957	—	—	4,052,957
Held for trading investment and derivative not designated as hedges – foreign exchange forward contract	12,181	—	—	12,181
	<u>11,423,715</u>	<u>1,588</u>	<u>—</u>	<u>11,425,303</u>
Financial liabilities				
Derivative not designated as hedges – foreign exchange forward contract	140	—	—	140
Interest-bearing loans and borrowings	909,824	18,409	—	928,233
Trade and other payables (Note 28)	6,576,468	136,772	—	6,713,240
Other liabilities	43	70	—	113
	<u>7,486,475</u>	<u>155,251</u>	<u>—</u>	<u>7,641,726</u>

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

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

Liquidity risk (cont'd)

As at December 31, 2017	One year or less RMB'000	Two to five years RMB'000	More than five years RMB'000	Total RMB'000	Total US\$'000
Financial assets					
Trade and bills receivables	7,075,319	—	—	7,075,319	1,117,850
Other receivables, excluding tax recoverable	132,675	620	—	133,295	21,060
Cash and bank balances	6,029,207	—	—	6,029,207	952,572
Held for trading investment	24,714	—	—	24,714	3,905
	13,261,915	620	—	13,262,535	2,095,387
Financial liabilities					
Interest-bearing loans and borrowings	1,624,539	27,874	—	1,652,413	261,069
Trade and other payables (Note 28)	7,328,762	156,347	—	7,485,109	1,182,594
Other liabilities	33	46	—	79	12
	8,953,334	184,267	—	9,137,601	1,443,675

34. Capital management

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

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

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2017 US\$'000
Interest-bearing loans and borrowings (current and non-current) (Note 16(b))	910,406	1,626,341	256,951
Trade and other payables (current and non-current) (Note 28)	6,981,815	7,624,496	1,204,616
Less: Cash and bank balances (Note 23)	(4,052,957)	(6,029,207)	(952,572)
Net debts	3,839,264	3,221,630	508,995
Equity attributable to equity holders of the parent	7,683,834	8,347,562	1,318,855
Total capital and net debts	11,523,098	11,569,192	1,827,850

Notes to the Consolidated Financial Statements

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

34. 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, 2016 and 2017.

As disclosed in Note 26, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2016 and 2017.

35. Fair value measurement

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2016:

	Date of valuation	Fair value measurement using			
		Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2016	12,181	12,181	—	—
Liabilities measured at fair value					
Derivative financial liabilities:					
Foreign exchange forward contract - USD ^① (Note 16(a))	December 31, 2016	140	—	140	—

Notes to the Consolidated Financial Statements

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

35. Fair value measurement (cont'd)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2017:

	Date of valuation	Fair value measurement using			
		Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares – TCL (Note 19)	December 31, 2017	24,714	24,714	—	—

Note:

⁽ⁱ⁾ Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.

There have been no transfers between Level 1 and Level 2 during 2017 and 2016.

36. Financial assets and financial liabilities

	Note	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As at December 31, 2016					
Financial assets					
Held for trading investment	19	12,181	—	—	12,181
Trade and bills receivables	20	—	7,057,256	—	7,057,256
Other receivables	21	—	248,275	—	248,275
Cash and bank balances	23	—	4,052,957	—	4,052,957
		12,181	11,358,488	—	11,370,669
Financial liabilities					
Trade and other payables	28	—	—	6,670,490	6,670,490
Loans and borrowings	16(b)	—	—	910,406	910,406
Other liabilities	16(a)	—	—	248	248
		—	—	7,581,144	7,581,144

Notes to the Consolidated Financial Statements

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36. Financial assets and financial liabilities (cont'd)

	Note	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000	Total US\$'000
As at December 31, 2017						
Financial assets						
Held for trading investment	19	24,714	—	—	24,714	3,905
Trade and bills receivables	20	—	7,031,544	—	7,031,544	1,110,934
Other receivables	21	—	133,295	—	133,295	21,060
Cash and bank balances	23	—	6,029,207	—	6,029,207	952,572
		<u>24,714</u>	<u>13,194,046</u>	<u>—</u>	<u>13,218,760</u>	<u>2,088,471</u>
Financial liabilities						
Trade and other payables	28	—	—	7,433,722	7,433,722	1,174,475
Loans and borrowings	16(b)	—	—	1,626,341	1,626,341	256,951
Other liabilities	16(a)	—	—	79	79	12
		<u>—</u>	<u>—</u>	<u>9,060,142</u>	<u>9,060,142</u>	<u>1,431,438</u>

Held for trading investment relates to the Group's investment in TCL, which is a company listed on the main board of the Singapore Exchange and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. Fair values of the quoted equity shares are determined by reference to published price quotations in an active market.

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

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

36. Financial assets and financial liabilities (cont'd)

Changes in liabilities arising from financing activities

	January 1, 2016	Cash flows	Foreign exchange movement	Translation reserve	Others	December 31, 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2016						
Loans & bonds						
- current	2,399,195	(1,535,532)	(9,608)	—	40,081	894,136
- non-current	56,509	(2,015)	(1,242)	3,099	(40,081)	16,270
Obligations under finance leases						
- current	59	(62)	(5)	8	38	38
- non-current	55	—	—	—	15	70
Total liabilities from financing activities	<u>2,455,818</u>	<u>(1,537,609)</u>	<u>(10,855)</u>	<u>3,107</u>	<u>53</u>	<u>910,514</u>

	January 1, 2017	Cash flows	Foreign exchange movement	Translation reserve	Others	December 31, 2017	December 31, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US\$'000

As at December 31, 2017

Loans & bonds							
- current	894,136	705,109	755	—	—	1,600,000	252,789
- non-current	16,270	9,376	879	(184)	—	26,341	4,162
Obligations under finance leases							
- current	38	(38)	—	9	24	33	5
- non-current	70	—	—	—	(24)	46	7
Total liabilities from financing activities	<u>910,514</u>	<u>714,447</u>	<u>1,634</u>	<u>(175)</u>	<u>—</u>	<u>1,626,420</u>	<u>256,963</u>

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

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