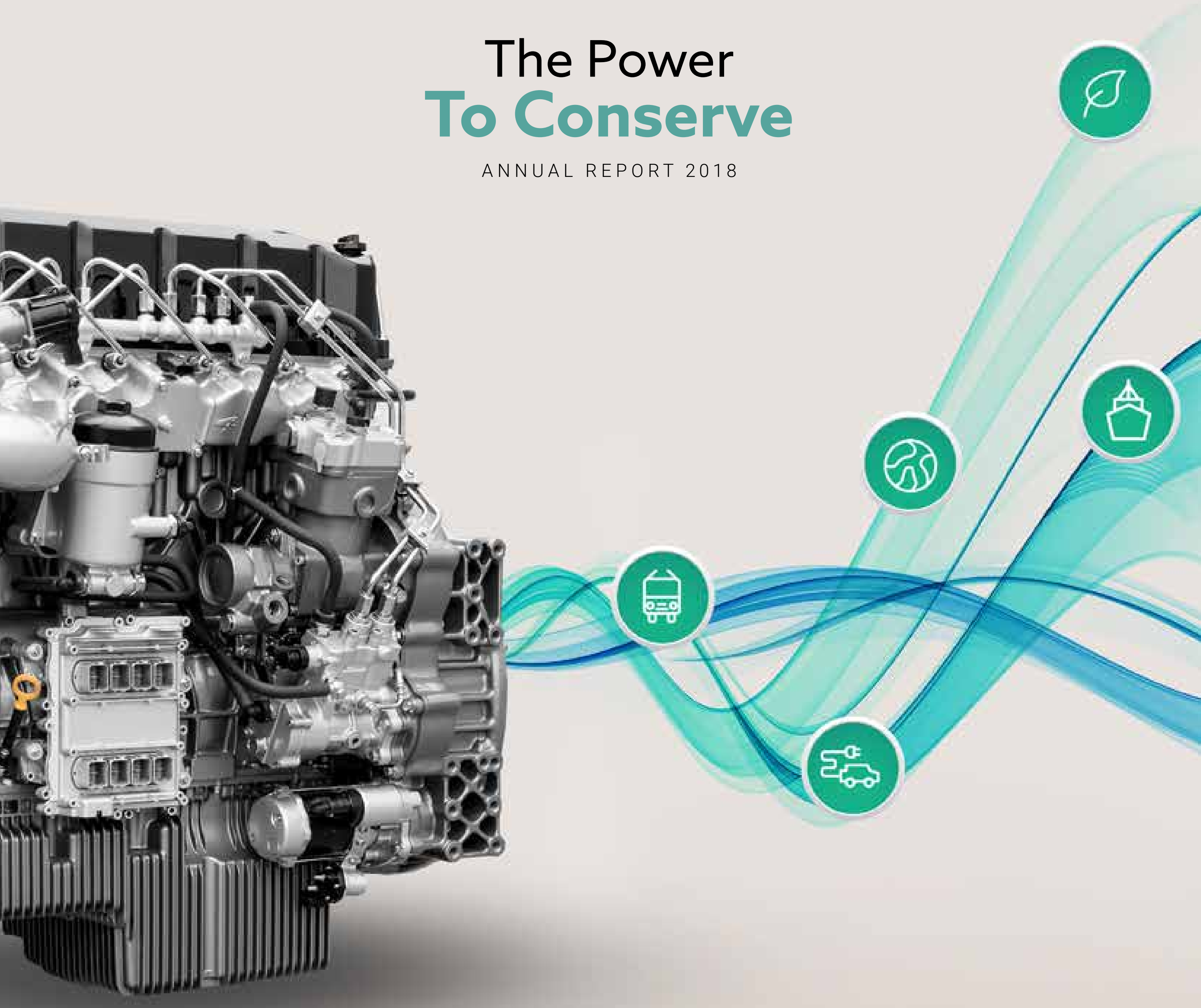
The Power
To Conserve

ANNUAL REPORT 2018



China Yuchai International Limited

Contents

01 China Yuchai's Core Ideals

02 Financial Highlights

04 President's Statement

08 Corporate Background

09 Our China-Wide Presence

10 Yuchai Overseas Network

11 Directors and Executive Officers of the Company

12 Board of Directors

13 Executive Officers of the Company

14 Corporate Governance

Front Cover: The YCK08 engine is among the 14 new engines introduced by China Yuchai in January 2018, 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

FINANCIAL **HIGHLIGHTS**

	2016 RMB'000 (Restated)**	2017 RMB'000 (Restated)**	2018 RMB'000
Revenue	13,643,195	16,197,819	**16,263,248**
Profit attributable to equity holders of the parent*	525,177	888,809	**695,266**
Total assets	18,515,746	21,015,059	**21,657,964**
Equity attributable to equity holders of the parent	7,735,672	8,334,287	**8,395,849**

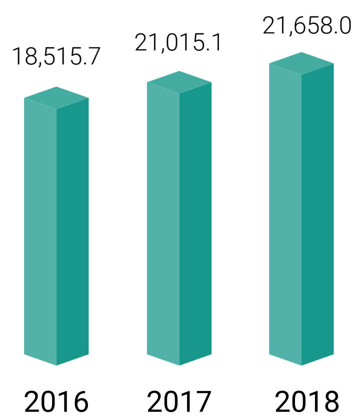
	2016 RMB'000 (Restated)**	2017 RMB'000 (Restated)**	2018 RMB'000
Earnings per share attributable to ordinary equity holders of the parent (RMB per share)	13.12	21.80	**17.02**
Weighted average number of shares	40,016,808	40,764,569	**40,858,290**

* The term "parent" as used here refers to China Yuchai.
** Restatement was due to the impact of the retrospective application of IFRS 15.

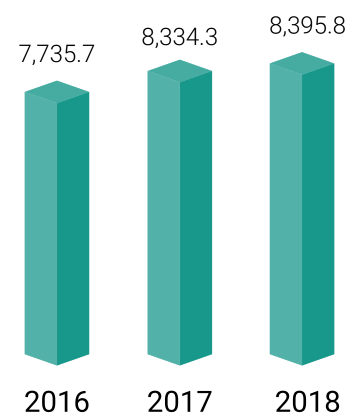
WE SOLD
375,731
ENGINES

FINANCIAL **HIGHLIGHTS**

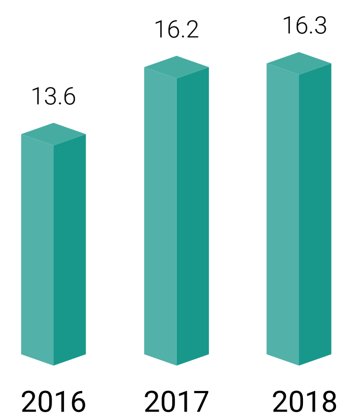
TOTAL ASSETS
(in RMB million)



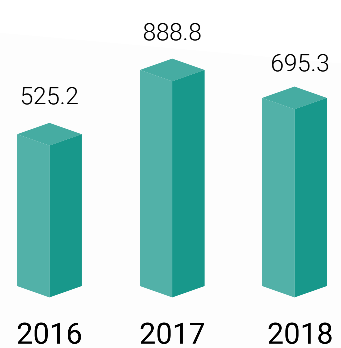
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in RMB million)



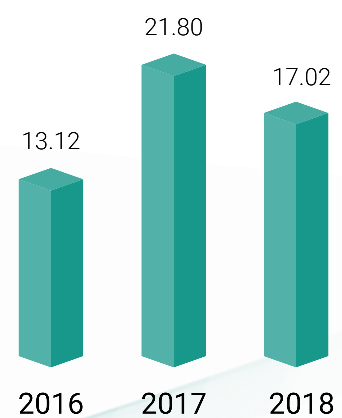
REVENUE
(in RMB million)



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 16.3

BILLION

Dear Shareholders,

2018 was a tumultuous year for the global and Chinese economies. The trade war between the U.S. and China intensified throughout the year. China's GDP growth slowed to 6.6% in 2018, the slowest pace since 1990. Industrial production growth in China dropped to 6.2% in 2018, compared with 6.6% in 2017. For the first time in nearly 20 years, annual auto sales in China experienced negative growth. More importantly, the economic slowdown hit consumer and investor confidence.

The Shanghai Composite Index of stocks pummeled nearly 25% for the 2018 year. Perhaps for the first time since China opened its doors to the world in 1980s, the term "consumption downgrade" has been used by local economists. Sales in the commercial vehicle decreased by 1.7% as more buyers delayed their purchases. Weaker exports and more controlled infrastructure investments reduced truck sales by 1.3%. An already well-established rail network negatively affected bus sales. Even the promising electric vehicle sector suffered significant subsidy reductions.

Against all headwinds, we grew our total unit sales by 2.4% to 375,731 from 367,097 in 2017. We not only further consolidated our market share in the medium-duty truck market, but we also increased our penetration into the off-road markets, namely, construction machinery, farming equipment and power generator sets. Despite product mix changes, our top line reached RMB 16.3 billion (US$ 2.4 billion), compared with RMB 16.2 billion in 2017.

Our net profit attributable to China Yuchai's shareholders in 2018 decreased by 21.8% to RMB 695.3 million (US$ 103.9 million), or earnings per share of RMB 17.02 (US$ 2.54), compared with RMB 888.8 million, or earnings per share of RMB 21.80 in 2017. Net profit attributable to China Yuchai's shareholders in 2017 included a net gain of RMB 62.1 million from one-time and extraordinary events. In 2017, our subsidiary, HL Global Enterprises Limited sold its hotel assets for a one-time gain of RMB 324.1 million. Adjusted total net profit attributable to China Yuchai's shareholders in 2017, excluding the one-time and extraordinary events, was RMB 826.7 million, and the adjusted basic and diluted earnings per share were RMB 20.28.

As one of the largest independent commercial vehicle engine producer in China, we are a firm believer of developing products for the future. 2020 is certainly a year for companies with advanced technologies to look forward to. The more stringent National VI(a) standards for on-road vehicles are expected to be implemented in mid-2020 followed by National VI(b) in mid-2023. The Tier 4 emission standards for off-road vehicles are also expected to be implemented in 2020 as well.

Tier 4 and National VI emission standards are specifically designed to make drastic reductions in Oxides of Nitrogen (NOx) and Particulate Matter (PM) emissions compared with earlier emission standards. National VI is a significant advancement over National V with regard to NOx limits. By adopting the National VI vehicle emission standards, China will achieve a significant reduction in vehicle emission pollutants like fine particulate matter (PM2.5) thereby reducing the risk of ischemic heart disease, lung cancer, stroke, and asthma. These changes with the National VI standards are leading to further advances in the full suite of vehicle engine and after-treatment designs. Engine manufacturers are installing new after-treatment technologies to limit NOx emission. In addition to exhaust gas recirculation (EGR) technology, diesel oxidation catalyst (DOC), diesel particulate filter (DPF) and selective catalytic reduction (SCR) systems are often used with an ECU engine control unit.

Our research and development continues to focus on further developing our National VI and Tier 4 technologies. One of our strategies is to be among the first to market with engines that meet or exceed the next-generation emission standards. Being among the first in China with engines compliant with the next emission standards creates a technological advantage and enhances our market leadership in the world's largest commercial vehicle market. Since the beginning of 2018, we introduced 14 new engines compliant with the National VI emission standards. Our new National VI engines include 10 diesel and 4 natural gas engines with a power range from 100 to 650 horsepower among 3 platforms, namely S, K, and Y. The S platform engine models address the market for medium- and

PRESIDENT'S **STATEMENT**

light-duty engines, the K platform engine models address the medium- and heavy-duty markets, and the Y platform engine models are for the light-duty engine market. We also signed strategic partnership agreements with 22 truck OEMs and 8 bus OEMs as well as 52 key components suppliers. For the off-road market, we also announced 10 new engines that meet the Tier 4 criteria with our new off-road engine portfolio which include the A, F, K series for light-, medium- and heavy-duty applications.

In October 2018, our new K08 model engine became the first diesel engine to pass the National VI-b certification tests in China. Compared with the earlier Euro VI emission standard prevailing in Europe, China's National VI emission standards specify higher standards in high-altitude emission control, emission warranty periods, remote vehicle terminal monitoring, and ongoing emission compliance. Expected to be nationally implemented in 2023, China's National VI-b phase emission standard is the emission control standard for on-road vehicles' internal combustion engines, and it is regarded as the most stringent emission control standard in the Chinese automotive industry history.

Since our joint venture, MTU Yuchai Power Co. Ltd., delivered its first MTU S4000 series engines from its new facility in early 2018, we have produced more than 100 units and continued to increase production. Our partner, MTU Friedrichshafen GmbH, a subsidiary of Rolls-Royce Power System Co., Ltd., has placed their trust in us to produce the world's leading high-end, high-speed, high-power engines for the domestic Chinese and export markets. Initially targeting the power generation and oil and gas sectors in China, the MTU S4000 engines produced in our Yulin facility, are meeting the growing need for domestically produced diesel engines with a power level on or above 1400 kW. This series of engines broadens our high-horsepower product line, better positions us in this market, and creates new growth opportunities.

During the year, we made another strategic move forming a joint venture company with Eberspaecher Exhaust Technology International GmbH. This new joint venture, Eberspaecher Yuchai Exhaust Technology Co. Ltd., will produce exhaust emission control systems for commercial vehicles to meet the National VI emission standards. Eberspaecher is a global exhaust technology pioneer which is increasing its investments in the growing Asian markets. These emission controls will benefit the future environment with fewer emissions from on-road systems for trucks and buses as well as off-road applications such as tractors or construction machines. We are optimistic that the new JV will produce emission control systems which will benefit our customers as well as customers in Eberspaecher's sales channel.

Our dedication to quality continued to win us a number of accolades in 2018. We won the National Technological Invention Award and the National Science and Technology Progress Award second prize from the National Office of Science and Technology. These awards and recognitions continue to serve as testimonials of our R&D program excellence that develops leading domestic engine technologies.

Financial discipline has always been a core competency for us. During 2018, our capacity utilization remained high, our expenses were better controlled, and our cashflow, as usual, was strong. As a result, our balance sheet remained strong at the end of 2018 with cash and bank balances of RMB 6.1 billion (US$ 916.1 million), compared with RMB 6.0 billion at the end of 2017. We declared fiscal year 2017 dividends of US$2.21 per share and paid fully in cash during 2018.

Looking back, 2018 was a year to lay foundations for the future. We continued to build our product offerings in the on-road heavy-duty and light-duty segments, and in industrial and agricultural off-road applications. We are cautiously optimistic about our growth prospects in 2019.

Weng Ming HOH
President
May 10, 2019

OPERATING PROFIT
RMB 1.28
BILLION

总裁致词

尊敬的股东们：

2018年是全球和中国经济形势动荡不安的一年。在这一年间，中美贸易战愈演愈烈。2018年，中国的国内生产总值增长率放慢至6.6%，是自1990年以来的最低增速。2018年，中国的工业生产增长率降至6.2%，而2017年则为6.6%。中国的年度汽车销量更是经历了近20年来的首次负增长。更重要的是，经济增长减缓对消费者及投资者的信心造成了打击。

上证综合指数在2018年的跌幅将近25%。国内经济学家使用“消费降级”一词，或许是自二十世纪八十年代中国对外开放以来的首次。商用车销量下降1.7%，原因在于更多买家推迟了购车计划。受出口减弱及基础设施投资管控力度增强的影响，卡车销量下降1.3%。而建设完善的铁路网络则对客车销量造成了不利影响。甚至大有前途的电动车板块也受到政府补贴大幅减少的影响。

面对诸多不利因素，我们的发动机总销量仍然增加到375,731台，较2017年的367,097台增长2.4%。我们不仅进一步巩固了在中型卡车市场的份额，还提高了在非道路用途市场（即工程机械、农用设备及发电机组）的渗透力度。尽管产品组合有所变化，我们的收入仍达到了人民币163亿元（即24亿美元），而2017年则为人民币162亿元。

2018年，归属于玉柴国际股东的净利润降低21.8%至人民币6.953亿元（即1.039亿美元）或每股收益人民币17.02元（即2.54美元），而2017年则为人民币8.888亿元或每股收益人民币21.80元。2017年，归属于玉柴国际股东的净利润包括一次性及非常规性交易净利润人民币6,210万元。2017年，我们的子公司丰隆环球有限公司出售其酒店资产获取一次性净利润人民币3.241亿元。2017年，扣除一次性及非常规性交易净利润，归属于玉柴国际股东的经调整净利润总额为人民币8.267亿元，经调整基本及摊薄每股收益为人民币20.28元。

作为中国最大的独立商用车发动机制造商之一，我们坚持开发面向未来的产品。对于掌握先进技术的公司来说，2020年无疑是值得期待的一年。针对道路用途车辆更为严格的国六(a)标准，预计将于2020年年中实施，而国六(b)标准预计将于2023年年中实施。针对非道路用途车辆的Tier 4排放标准预计也会在2020年实施。

与之前的排放标准相比，Tier 4及国六排放标准尤其旨在大幅减少氮氧化物及颗粒物的排放。国六标准大幅提高了国五标准关于氮氧化物限额的要求。采用国六车辆排放标准后，中国的细颗粒物（PM2.5）等车辆排放污染物将显著减少，由此降低缺血性心脏病、肺癌、中风和哮喘的风险。国六标准的改变动正在引领车辆发动机和后处理设计的整体革新。发动机制造商正在配置新的后处理技术，以控制氮氧化物排放。除废气再循环技术外，发动机控制装置通常还配备柴油机氧化催化器、柴油机微粒过滤器及选择性催化还原系统。

我们的研发工作继续专注于进一步开发符合国六和Tier 4标准的技术。我们的战略之一是成为首先推出符合或超过下一代排放标准产品的发动机制造商。如果我们能够在中国首先推出符合下一代排放标准的发动机，将使我们形成技术优势并提升我们在中国这一世界最大商用车市场的领导地位。从2018年年初开始，我们推出了14款符合国六排放标准的新发动机。我们的新国六发动机包括S、K、Y三个系列的10款柴油发动机和4款天然气发动机，功率范围为100至650马力。S系列发动机型号主打中型及轻型发动机市场，K系列发动机型号主打中型及重型发动机市场，而Y系统发动机型号则针对轻型发动机市场。我们还与22家卡车组装厂、8家客车组装厂以及52家关键零部件供应商签订战略合作协议。针对非道路用途发动机市场，我们还在新的非道路用途发动机产品组合中推出了10款符合Tier 4标准的新发动机，包括A、F、K系列的轻型、中型及重型发动机。

总裁致词

2018年10月，我们的K08型新发动机成为中国首款通过国六(b)认证测试的柴油发动机。与之前在欧洲通行的欧六排放标准相比，中国的国六排放标准在高海拔排放控制、排放质保期、远程车载终端监控及在用车排放符合性方面提出了更高要求。中国的国六(b)阶段排放标准预计将于2023年在全国实施，是针对道路用途车辆内燃机的排放控制标准，被视为中国汽车行业有史以来最严格的排放控制标准。

我们的合营企业玉柴安特优动力有限公司在2018年初从新工厂交付首批MTU S4000系列发动机，此后我们已生产超过100台发动机并不断提高产量。 我们的合作伙伴MTU Friedrichshafen GmbH 是Rolls-Royce Power System Co., Ltd. 的子公司，对我们为国内外市场生产世界领先的高端、高速、大功率发动机充满信心。MTU S4000发动机在我们的玉林工业园生产，初步以中国的发电和油气行业为目标，正在满足对功率在1400千瓦或以上国产柴油发动机日益增长的需求。该系列发动机将扩充我们的大马力产品系列，使我们在市场中处于更为有利的地位，并创造新的增长机会。

同年我们还作出另一项战略举措，与Eberspaecher Exhaust Technology International GmbH（“埃贝赫”）组建合营公司。新的合营企业埃贝赫玉柴排放处理系统有限公司将生产符合国六排放标准的商用车排放控制系统。埃贝赫是全球排放技术的领军企业，正在加大对日益增长的亚洲市场的投资。相关排放控制系统将有益于未来的环境，使道路用途的卡车和客车系统以及非道路用途的拖拉机或工程机等减少排放。对于让我们的客户及埃贝赫销售渠道的客户均受益于新合营企业生产的排放控制系统，我们乐观其成。

我们追求品质，在2018年不断赢得多项荣誉，获得了国家科学技术奖励办公室颁发的国家技术发明奖二等奖及国家科学技术进步奖二等奖。这些奖项和荣誉认可了我们在开发国内领先发动机技术上卓越的研发能力。

财务纪律始终作为我们的一项核心优势。在2018年，我们的生产能力继续得到更好地利用，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。在2018年末，我们的资产负债表仍然很稳健，现金和银行存款为人民币61亿元（即9.161亿美元），而2017年末则为人民币60亿元。我们在2018年宣布2017财务年度的股息为每股2.21美元并以现金全额支付。

回顾过去，2018年是为今后打下基础的一年。我们继续发展道路用途重、轻型发动机以及非道路用途工程与农业发动机的产品供应。对于2019年的增长前景，我们保持谨慎乐观。

何永明
总裁
2019年5月10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 4 emission standards for use in off-road machinery.

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

CYI has also invested in HL Global Enterprises Limited ("HLGE") which is listed on the main board of the Singapore Exchange. Currently, CYI holds a 48.9% shareholding interest in HLGE. The core businesses of HLGE are hospitality operations and property development.

公司背景

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

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

广西玉柴产品涵盖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燃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合等改善产品组合，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 4排放标准的满足非道路应用的柴油发动机。

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

此外，玉柴国际投资一家新加坡交易所主板上市的公司-丰隆环球有限公司(“丰隆环球”)。玉柴国际目前持有丰隆环球48.9%的股权。丰隆环球的核心业务是酒店经营与房地产开发。

OUR CHINA-WIDE **PRESENCE**

Guangxi Yuchai Machinery Company Limited
公司总部

2,600+ customer service stations
玉柴技术服务站

28 regional offices
玉柴办事处

YUCHAI
OVERSEAS NETWORK

Overseas Offices

12

Overseas Service Agents Appointed

182

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 April 10, 2019, there were ten members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck, Tan Eng Kwee 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
TAN Eng Kwee (3)(4)	Director	2019
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	2004
XIE Tao **	Director	2019
PHUNG Khong Fock Thomas (1)	Chief Financial Officer	2016
WONG Teck Kow	General Counsel	2018
Conyers Corporate Services (Bermuda) Limited (5)	Secretary	2015

(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.
* Mr. Tan Aik-Leang resigned as Audit Committee Chairman and a Director of the Company with effect on May 2, 2019 and May 11, 2019, respectively. During the period from May 2 to May 11, 2019, Mr. Tan remained a member of the Audit Committee.
** Mr. Xie Tao was appointed as Chairman of the Audit Committee on May 2, 2019.

BOARD OF DIRECTORS

Mr. Hoh Weng Ming was appointed President and a Director of the Company on July 17, 2013 and November 11, 2011, respectively. He was the Chief Financial Officer of the Company from May 2008 to November 2011. He has also served as Director of Yuchai and HLGE since December 2008 and February 2011, respectively. Mr. Hoh has more than 35 years of working experience with extensive regional experience in Singapore, Malaysia, New Zealand, Hong Kong and China. He has worked in various roles with companies including Johnson Electric Industrial Manufactory Limited as well as Henan Xinfei Electric Co., Ltd. Previously, he held the position of Financial Controller of the Company from 2002 to 2003 and the Chief Financial Officer of Hong Leong Asia from 2011 to 2013. Mr. Hoh has a Bachelor of Commerce Degree majoring in Accountancy from the University of Canterbury, Christchurch, New Zealand and an 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.

Dato' 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. Dato' 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, the Non-Executive Chairman of Tasek Corporation Berhad and an Executive Director of Hong Leong Investment Holdings Pte. Ltd. and Hong Leong Corporation Holdings Pte. Ltd. He also sits on the boards of HL Technology, Hong Leong China, Well Summit Investments Limited, Yuchai, 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. Tan Eng Kwee is a Director of the Company. He is also the CEO and a Director of Hong Leong Asia. Mr. Tan has more than 30 years of operations, corporate, accounting and financial experience. Prior to joining Hong Leong Asia, Mr. Tan served in Gold Coin Group for more than 10 years, holding senior management positions of CFO, Group Business Development Director, Group Logistics Director and Group Chief Operating Officer. He has held senior management positions in Perennial China Retail Trust Management Pte. Ltd., Dynapack Asia Pte. Ltd. and Epsilon Global Communications Pte. Ltd. Mr. Tan holds a Bachelor of Accountancy Degree from The University of Singapore and an MBA from the Cranfield School of Management, U.K. He was a fellow member of the Chartered Association of Certified Accountants (U.K.) and an associate member of the Institute of Chartered Secretaries & Administrators (now known as Chartered Secretaries Institute of Singapore) and the Chartered Association of Management Accountants.

Mr. Yan Ping is a Director of the Company and the Chairman of the Board of Directors of Yuchai. He is also the President of the 6th Council of the China Internal Combustion Engine Industry Association and the Chairman of the State Holding Company (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 Co., 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.

BOARD
OF DIRECTORS

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.

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an independent Director on April 30, 2013. Mr. Ho is a practicing arbitrator. He was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining the Law Society secretariat in 2006, he had practiced law as a solicitor for 23 years with a wide range of experience in transactional and contentious matters. Mr. Ho holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well as a Master of Laws from the University of London. He is a Fellow of the U.K. Chartered Institute of Arbitrators and is currently listed on the panel of arbitrators of the Hong Kong International Arbitration Centre. He is now a non-practicing 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. He is also a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Xie Tao was appointed as Director of the Company on April 10, 2019. He has spent the major part of his career with PricewaterhouseCoopers (PwC) for nearly 23 years. He was a lead partner of the Advisory practice in PwC China. He was also the Senior Partner of Corporate Finance and served on the Executive Board of the China, Singapore and Hong Kong member firms of PwC. Mr. Xie has more than 30 years of experience in corporate management and financial advisory including mergers and acquisitions, corporate finance and transaction services. Between 2012 and 2014, he was a partner at Ernst & Young, then Deloitte, as a leader of transaction services and corporate finance business. He was also a financial advisor for the 2008 Beijing Olympic Games. Between 2010 and 2017, Mr. Xie held several executive and non-executive management roles of private and public companies in China and abroad. He holds a bachelor's degree in Physics from Beijing University in China and was a member of the UK Chartered Association of Certified Accountants. Our Board of Directors has determined that Mr. Xie is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

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, U.K. in 1994.

Mr. Wong Teck Kow was appointed General Counsel of the Company on May 2, 2018. He has more than 15 years' experience with global companies in legal and compliance work with extensive regional exposure in Asia Pacific countries including Greater China, Australia, New Zealand, Japan and Southeast Asia. Mr. Wong was senior regional counsel with RCI (a Wyndham Destinations company), Cushman & Wakefield and Jones Lang LaSalle, and practiced criminal and civil law in a Singapore local law firm. He graduated from the Law Faculty of National University of Singapore with second class honors, and was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 2000. His other credentials include being a Certified Information Privacy Professional Asia (CIPP/A), a member of the Singapore Academy of Law and an Editorial Board Member of the China Business Law Journal.

CORPORATE GOVERNANCE

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

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

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

Standard for US Domestic Listed Companies	*China Yuchai International Limited's Practice*
Director Independence	
• A majority of the board must consist of independent directors. 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.	• In 2018, 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. On April 10, 2019, Mr Xie Tao was appointed as a director and he is independent within the meaning of the NYSE standards.
• The non-management directors of each company must meet at regularly scheduled executive sessions without management.	• As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.

CORPORATE **GOVERNANCE**

Standard for US Domestic Listed Companies	*China Yuchai International Limited's Practice*
Audit Committee	
• Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.	• In 2018, our audit committee comprised of three independent non-executive directors. On March 25, 2019, one non-independent non-executive director was appointed as a non-voting member of the audit committee with observer status only, relying on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act.*
• The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.	• In 2018, our audit committee consisted of three members, all of whom met the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act. On March 25, 2019, one non-independent non-executive director was appointed as a non-voting member of the audit committee with observer status only, relying on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act.*
• The audit committee must have a written charter that addresses the committee's purpose and responsibilities.	• Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of U.S. companies.
At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.	• Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of U.S. companies.

* EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
Mr. Tan Eng Kwee is the CEO of our controlling shareholder, Hong Leong Asia Ltd. He has observer status on our Audit Committee and is a non-voting member of the committee in reliance on the exemption provided in Rule 10A-3 (b)(1)(iv)(D) of the Exchange Act. He does not serve as an executive officer of the Company. We do not believe that his status as an affiliate materially adversely affects the ability of our Audit Committee to act independently or to satisfy the other requirements of the listing standards relating to audit committees contained in Rule 10A-3 under the Exchange Act.

CORPORATE **GOVERNANCE**

Standard for US Domestic Listed Companies	*China Yuchai International Limited's Practice*
The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.	• Our audit committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
• Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.	• The Board of Directors identified Mr. Xie Tao, in place of Mr. Tan Aik-Leang, as our Audit Committee Financial Expert, after Mr. Tan's resignation as the Audit Committee Chairman on May 2, 2019.
• Each listed company must have an internal audit function.	• We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, reviews significant audit issues and monitors corrective actions taken by management.
Compensation Committee	
• Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.	• Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
• The committee must have a written charter that addresses its purpose and responsibilities.	
• These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.	• Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.

CORPORATE GOVERNANCE

Standard for US Domestic Listed Companies	*China Yuchai International Limited's Practice*
Nominating/Corporate Governance Committee	
• Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.	• We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.
• The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.	
Equity-Compensation Plans	
• Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions.	• Our Equity Incentive Plan was approved by our shareholders in 2014
Corporate Governance Guidelines	
• Listed companies must adopt and disclose corporate governance guidelines.	• We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.
Code of Business Conduct and Ethics	
• All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.	• We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at http://www.cyilimited.com. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

Financial Report

19 Report of Independent Registered Public Accounting Firm

21 Consolidated Statement of Profit or Loss

22 Consolidated Statement of Comprehensive Income

23 Consolidated Statement of Financial Position

25 Consolidated Statement of Changes in Equity

28 Consolidated Statement of Cash Flows

31 Notes to the Consolidated Financial Statements

REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (the "Company") as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 22, 2019 expressed an unqualified opinion thereon.

Adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*

As discussed in Note 2.4 to the consolidated financial statements, the Company changed its method of accounting for financial instruments and revenue in 2018, 2017 and 2016 due to the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Basis for Opinion

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

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

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

Ernst & Young LLP
We have served as the Company's auditor since 2009
Singapore
April 22, 2019

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, 2018, 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, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes and our report dated April 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP
Singapore
April 22, 2019

CONSOLIDATED STATEMENT OF **PROFIT OR LOSS**

	Note	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Revenue	7	13,643,195	16,197,819	16,263,248	2,430,942
Cost of sales	8.1	(10,670,743)	(12,841,768)	(13,171,227)	(1,968,764)
Gross profit		2,972,452	3,356,051	3,092,021	462,178
Other operating income	8.2(a)	117,954	532,117	205,143	30,663
Other operating expenses	8.2(b)	(22,599)	(22,719)	(12,463)	(1,863)
Research and development costs	8.1	(588,007)	(608,181)	(447,668)	(66,915)
Selling, general and administrative costs	8.1	(1,500,273)	(1,652,855)	(1,554,512)	(232,360)
Operating profit		979,527	1,604,413	1,282,521	191,703
Finance costs	8.3	(79,683)	(100,439)	(113,088)	(16,904)
Share of (loss)/profit of associates and joint ventures, net of tax	5,6	(3,612)	10,054	11,634	1,739
Profit before tax		896,232	1,514,028	1,181,067	176,538
Income tax expense	9	(160,270)	(194,172)	(206,667)	(30,891)
Profit for the year		735,962	1,319,856	974,400	145,647
Attributable to:					
Equity holders of the parent		525,177	888,809	695,266	103,925
Non-controlling interests		210,785	431,047	279,134	41,722
		735,962	1,319,856	974,400	145,647
Earnings per share (dollar per share)					
–Basic	10	13.12	21.80	17.02	2.54
–Diluted	10	13.12	21.80	17.02	2.54

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

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Profit for the year	735,962	1,319,856	974,400	145,647
Other comprehensive income				
Items to be reclassified to profit or loss in subsequent periods, net of tax:				
Foreign currency translation	36,394	(72,271)	49,245	7,362
Realization of foreign currency translation reserves upon disposal of foreign operation	–	(4,252)	–	–
Net fair value change of financial assets	–	–	32,646	4,880
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax	36,394	(76,523)	81,891	12,242
Total comprehensive income for the year, net of tax	772,356	1,243,333	1,056,291	157,889
Attributable to:				
Equity holders of the parent	564,795	827,109	763,935	114,189
Non-controlling interests	207,561	416,224	292,356	43,700
	772,356	1,243,333	1,056,291	157,889

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

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

	Note	1.1.2017 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	4,127,185	3,824,018	3,756,542	561,508
Investment property	12	7,298	7,434	6,765	1,011
Prepaid operating leases	13	379,636	367,270	354,546	52,996
Goodwill	14	212,636	212,636	212,636	31,784
Intangible assets	15	50,122	10,122	206,001	30,792
Investment in associates and joint ventures	5,6	107,126	198,287	224,942	33,623
Deferred tax assets	9	282,212	315,390	361,207	53,991
Long-term bank deposits	21	–	70,000	70,000	10,463
Contract assets	7,20	–	–	44,434	6,642
Other receivables	20	1,588	620	–	–
Other assets	19	–	303	–	–
		5,167,803	5,006,080	5,237,073	782,810
Current assets					
Inventories	18	1,663,879	2,572,745	2,517,864	376,357
Trade and other receivables	20	7,493,621	7,415,934	7,785,287	1,163,702
Prepaid operating leases	13	12,546	12,546	12,546	1,875
Other assets	19	35,559	48,547	46,672	6,976
Cash and cash equivalents	21	3,653,914	5,390,324	5,559,890	831,062
Long-term bank deposits	21	–	–	70,000	10,463
Short-term bank deposits	21	363,043	514,074	356,926	53,352
Restricted cash	21	36,000	54,809	71,706	10,718
Asset classified as held for sale		89,381	–	–	–
		13,347,943	16,008,979	16,420,891	2,454,505
Total assets		18,515,746	21,015,059	21,657,964	3,237,315

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	1.1.2017 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
EQUITY AND LIABILITIES					
Equity					
Issued capital	22	2,059,076	2,081,138	2,081,138	311,077
Preference shares	22	21	21	–	–
Statutory reserves	24	299,144	301,026	302,404	45,202
Capital reserves		30,954	30,704	30,704	4,590
Retained earnings		5,358,037	5,996,120	6,092,549	910,681
Other components of equity	24	(11,560)	(74,722)	(110,946)	(16,584)
Equity attributable to equity holders of the parent		7,735,672	8,334,287	8,395,849	1,254,966
Non-controlling interests		2,317,982	2,627,617	2,751,705	411,310
Total equity		10,053,654	10,961,904	11,147,554	1,666,276
Non-current liabilities					
Loans and borrowings	16(b)	16,270	26,341	15,078	2,254
Other liabilities	16(a)	70	46	34	5
Contract liabilities	28	27,372	34,759	53,703	8,027
Deferred tax liabilities	9	115,758	116,468	136,728	20,437
Deferred grants	17	315,950	331,377	585,526	87,521
Other payables	26	136,772	156,347	160,091	23,930
		612,192	665,338	951,160	142,174
Current liabilities					
Trade and other payables	26	6,552,999	7,350,684	7,031,043	1,050,963
Loans and borrowings	16(b)	894,136	1,600,000	2,001,014	299,101
Other liabilities	16(a)	178	33	14	2
Contract liabilities	28	185,914	198,570	286,786	42,867
Provision for taxation		47,667	46,716	73,480	10,983
Provision for product warranty	27	169,006	191,814	166,913	24,949
		7,849,900	9,387,817	9,559,250	1,428,865
Total liabilities		8,462,092	10,053,155	10,510,410	1,571,039
Total equity and liabilities		18,515,746	21,015,059	21,657,964	3,237,315

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Attributable to the equity holders of the parent											
	Issued capital	Preference shares	Statutory reserves	Capital reserves	Retained earnings	Foreign currency translation reserve	Performance shares reserve	Reserve of asset classified as held for sale (Note 6)	(Premium paid for)/ discount on acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538	–	(12,914)	7,239,617	2,190,452	9,430,069
Effect of adoption of new accounting standard (Note 2.4)	–	–	–	–	42,398	–	–	–	–	42,398	13,090	55,488
At January 1, 2016 (Restated)	1,955,720	21	298,221	30,954	5,055,332	(60,857)	15,538	–	(12,914)	7,282,015	2,203,542	9,485,557
Profit for the year	–	–	–	–	525,177	–	–	–	–	525,177	210,785	735,962
Other comprehensive income for the year, net of tax	–	–	–	–	–	39,618	–	–	–	39,618	(3,224)	36,394
Total comprehensive income for the year	–	–	–	–	525,177	39,618	–	–	–	564,795	207,561	772,356
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Shares issued during the year	103,356	–	–	–	–	–	–	–	–	103,356	–	103,356
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(84,450)	(84,450)
Dividends declared and paid (US$0.85 per share)	–	–	–	–	(221,549)	–	–	–	–	(221,549)	–	(221,549)
Cost of share-based payments (Note 25)	–	–	–	–	–	–	5,301	–	–	5,301	–	5,301
Changes in ownership interest in subsidiaries												
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	1,754	1,754	(8,671)	(6,917)
Others												
Transfer to statutory reserves	–	–	923	–	(923)	–	–	–	–	–	–	–
Reserve attributable to asset classified as held for sale	–	–	–	–	–	(22,720)	–	22,720	–	–	–	–
At December 31, 2016 (Restated)	2,059,076	21	299,144	30,954	5,358,037	(43,959)	20,839	22,720	(11,160)	7,735,672	2,317,982	10,053,654

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Attributable to the equity holders of the parent											
	Issued capital (Note 22)	**Preference shares (Note 22)**	**Statutory reserves (Note 24)**	**Capital reserves**	**Retained earnings**	**Foreign currency translation reserve (Note 24)**	**Performance shares reserve (Note 24)**	**Reserve of asset classified as held for sale (Note 6)**	**(Premium paid for)/ discount on acquisition of non-controlling interests (Note 24)**	**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 (Restated)	2,059,076	21	299,144	30,954	5,358,037	(43,959)	20,839	22,720	(11,160)	7,735,672	2,317,982	10,053,654
Profit for the year (Restated)	–	–	–	–	888,809	–	–	–	–	888,809	431,047	1,319,856
Other comprehensive income for the year, net of tax	–	–	–	–	–	(38,980)	–	(22,720)	–	(61,700)	(14,823)	(76,523)
Total comprehensive income for the year	–	–	–	–	888,809	(38,980)	–	(22,720)	–	827,109	416,224	1,243,333
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Shares issued during the year (Note 22)	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 23)	–	–	–	–	(248,844)	–	–	–	–	(248,844)	–	(248,844)
Cost of share-based payments (Note 25)	–	–	–	–	–	–	1,592	–	–	1,592	–	1,592
Exercise of share option	–	–	–	–	–	–	(2,673)	–	–	(2,673)	–	(2,673)
Changes in ownership interests in subsidiaries												
Acquisition of non-controlling interests	–	–	–	(250)	–	–	–	–	(381)	(631)	(7,648)	(8,279)
Other												
Transfer to statutory reserves	–	–	1,882	–	(1,882)	–	–	–	–	–	–	–
At December 31, 2017 (Restated)	2,081,138	21	301,026	30,704	5,996,120	(82,939)	19,758	–	(11,541)	8,334,287	2,627,617	10,961,904

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Attributable to the equity holders of the parent											
	Issued capital (Note 22) RMB'000	Preference shares (Note 22) RMB'000	Statutory reserves (Note 24) RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve (Note 24) RMB'000	Performance shares reserve (Note 24) RMB'000	Fair value reserve (Note 24) RMB'000	(Premium paid for)/ discount on acquisition of non-controlling interests (Note 24) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2018 (Restated)	2,081,138	21	301,026	30,704	5,996,120	(82,939)	19,758	–	(11,541)	8,334,287	2,627,617	10,961,904
Effect of adoption of new accounting standard (Note 2.4)	–	–	–	–	–	–	–	(104,893)	–	(104,893)	(32,384)	(137,277)
Profit for the year	–	–	–	–	695,266	–	–	–	–	695,266	279,134	974,400
Other comprehensive income for the year, net of tax	–	–	–	–	–	43,724	–	24,945	–	68,699	13,222	81,891
Total comprehensive income for the year	–	–	–	–	695,266	43,724	–	24,945	–	763,935	292,356	1,056,291
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(135,905)	(135,905)
Dividends declared and paid (US$2.21 per share) (Note 22)	–	–	–	–	(597,459)	–	–	–	–	(597,459)	–	(597,459)
Other												
Transfer to statutory reserves	–	–	1,378	–	(1,378)	–	–	–	–	–	–	–
Conversion of preference shares	–	(21)	–	–	–	–	–	–	–	(21)	21	–
At December 31, 2018	2,081,138	–	302,404	30,704	6,092,549	(39,215)	19,758	(79,948)	(11,541)	8,395,849	2,751,705	11,147,554
US$'000	311,077	–	45,202	4,590	910,681	(5,862)	2,953	(11,950)	(1,725)	1,254,966	411,310	1,666,276

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Operating activities				
Profit before tax	896,232	1,514,028	1,181,067	176,538
Adjustments:				
Amortization of prepaid operating leases	12,819	12,366	12,724	1,902
Bad debt written off/(recovered)	–	10	(108)	(16)
Cost of share-based payments	5,301	1,592	–	–
Depreciation of property, plant and equipment	465,093	431,567	420,277	62,821
Depreciation of investment property	248	248	884	132
Dividend income from quoted equity securities	(943)	(2,532)	(1,992)	(298)
Exchange (gain)/loss	(3,407)	(8,319)	4,235	633
Fair value loss/(gain) on foreign exchange forward contract	140	–	(4,529)	(677)
Fair value loss/(gain) on quoted equity securities	243	(12,768)	3,433	513
Finance costs	79,683	100,439	113,088	16,904
Loss/(gain) on disposal of:				
–associate	–	(199)	–	–
–joint venture	–	(107,976)	–	–
–property, plant and equipment	14,020	(11,668)	(8,835)	(1,321)
–subsidiaries	–	(216,115)	–	–
Government grants	(36,533)	(28,035)	(32,237)	(4,819)
Interest income	(56,983)	(105,421)	(147,244)	(22,009)
Impairment losses on intangible asset	1,131	40,000	–	–
Impairment losses on property, plant and equipment	3,297	20,845	30,173	4,510
Impairment losses/(reversal of impairment losses) on trade receivables, net	3,696	(10,854)	(11,052)	(1,652)
Property, plant and equipment written off	5	5,682	1,265	189
Share of loss/(profit) of associates and joint ventures, net of tax	3,612	(10,054)	(11,634)	(1,739)
Reversal of write-down of inventories, net	(5,171)	(19,901)	(8,468)	(1,266)
Write-back of trade and other payables	–	(29)	–	–
Profit before tax after adjustments	1,382,483	1,592,906	1,541,047	230,345

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Changes in working capital				
Decrease/(increase) in inventories	55,299	(897,437)	47,533	7,105
Decrease/(increase) in trade and other receivables	122,192	81,121	(502,069)	(75,047)
Increase/(decrease) in trade and other payables and contract liabilities	849,134	846,175	(229,457)	(34,298)
Decrease in development properties	–	377	4,205	629
Cash flows from operating activities	2,409,108	1,623,142	861,259	128,734
Income taxes paid	(133,021)	(202,975)	(190,658)	(28,499)
Net cash flows from operating activities	2,276,087	1,420,167	670,601	100,235
Investing activities				
Additional investment in subsidiaries	(9,076)	(8,279)	–	–
Additional investment in associates and joint ventures	(1,255)	(75,000)	–	–
Development costs	–	–	(180,626)	(26,999)
Dividend received from:				
–quoted equity securities	943	2,532	1,992	298
–joint ventures	598	754	801	120
Interest received	56,734	108,481	143,768	21,490
Proceeds from disposal of:				
–associate	–	1,832	–	–
–joint venture	–	182,679	–	–
–property, plant and equipment	667	15,640	6,669	997
–subsidiaries, net of cash disposed	–	341,602	–	–
Proceeds from government grants	13,639	50,095	286,198	42,779
Purchase of property, plant and equipment	(351,472)	(289,472)	(407,747)	(60,948)
Placement/(withdrawal) of fixed deposits with banks, net	(282,809)	(254,294)	68,953	10,307
Net cash flows (used in)/from investing activities	(572,031)	76,570	(79,992)	(11,956)

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Financing activities				
Dividends paid to:				
–equity holders of the parent	(118,193)	(235,947)	(597,459)	(89,305)
–non-controlling interests	(87,975)	(97,009)	(132,558)	(19,814)
Interest paid and discounting on bills receivable	(110,774)	(107,246)	(108,039)	(16,149)
Payment of finance lease liabilities	(61)	(38)	(33)	(5)
Proceeds from:				
–borrowings	1,255,659	1,814,618	2,000,320	298,997
–issue of shares	–	6,617	–	–
Withdrawal of fixed deposits pledged with banks for banking facilities	300,564	–	–	–
Repayment of borrowings	(2,793,206)	(1,100,133)	(1,611,756)	(240,917)
Net cash flows (used in)/from financing activities	(1,553,986)	280,862	(449,525)	(67,193)
Net increase in cash and cash equivalents	150,070	1,777,599	141,084	21,086
Cash and cash equivalents at January 1	3,474,364	3,653,914	5,390,324	805,717
Effect of exchange rate changes on balances in foreign currencies	29,480	(41,189)	28,482	4,259
Cash and cash equivalents at December 31	3,653,914	5,390,324	5,559,890	831,062

Significant non-cash transactions

During 2016, 2017 and 2018, certain customers settled their debts with trade bills amounting to RMB 12,203 million, RMB 14,696 million and RMB 14,010.2 million (US$2,094 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

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, 2018 were authorized for issue in accordance with a resolution of the directors on April 22, 2019.

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

1.2 Investment in Guangxi Yuchai Machinery Company Limited

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

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

As at December 31, 2018, Yuchai has nine direct and thirty-two indirectly owned subsidiaries, four 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 twenty-eight wholly-owned subsidiaries (collectively "YMMC Group") located at various provinces in the PRC. The principal business of YMMC Group are trading and distribution of components of diesel engines and automobiles. GYAMC has two wholly-owned subsidiary (collectively "GYAMC Group"). The principal business of GYAMC Group are sales and manufacturing of 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION (CONT'D)

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

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, 2017 and 2018, 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

Translation of amounts from Renminbi to 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 6.6901 = US$1.00, the rate quoted by the People's Bank of China at the close of business on February 28, 2019 and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (cont'd)

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2017 is presented in these consolidated financial statements due to the retrospective application of accounting policies as a result of the adoption of new accounting standards. See Note 2.4.

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, 2018. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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.

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised 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 recognised 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 recognised in profit or loss.

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

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

(b) Investments in associates and joint ventures

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(c) Current versus non-current classification

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.

(d) Fair value measurement

The Group measures financial instruments, such as quoted equity securities, bill receivables 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 securities — Note 34
- Bills receivables — Note 34
- Foreign exchange forward contract — Note 34

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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

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 34.

(e) Foreign currency translation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Transactions and balances

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

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

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

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

Group companies

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

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 from Contracts with Customers

Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

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

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

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

Sale of engines

Revenue from sale of engines is recognised when the engines are delivered to the customer and all criteria for acceptance have been satisfied.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties).

Service-type warranty

The Group provides certain warranties for both general repairs and maintenance service as part of the sales of engines. For general repairs, such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Warranty for maintenance service is a distinct service to the customer in addition to the assurance that the product complies with agreed upon specification. Under IFRS15, the Group accounts for a service-type warranty as a separate performance obligation to which the Group allocates a portion of the transaction price. The portion of the consideration allocated to the service-type warranty is initially recorded as a contract liability and recognised as revenue upon the service rendered.

Variable consideration

The Group provides certain customers with retrospective rebates when the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable considerations for the expected future rebates, the Group applies the most likely amount method for each individual contract. The Group then applies the requirements on constraining estimates of variable consideration and recognizes a refund liability in "Trade and other payables" for the expected future rebates.

The variable consideration is estimated and is constrained to extent that it is likely probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is subsequently resolved.

Sale of completed development properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

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

Rendering of services

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

Interest income

For all financial instruments measured at 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.

Contract balances

Contract assets

The contract assets are costs which have been capitalized and are directly related to a contract, for which resources were used in satisfying the contract and are expected to be recovered.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional. Refer to accounting policies of financial assets in section m) financial instruments.

Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

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

Assets and liabilities arising from rights of return

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities at the end of each reporting period.

(g) Government grants

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

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

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) 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.

(j) Property, plant and equipment

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

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

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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

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

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

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

(k) Investment properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(k) Investment properties (cont'd)

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

(l) Intangible assets

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

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

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

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon 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.

Research and development costs

Research costs are expensed as incurred.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

Research and development costs (cont'd)

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.

(m) Financial instruments

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 recognized when, and only when the entity becomes party to the contractual provision of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods and services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investment in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represents solely payment of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired, and through amortization process.

The Group's financial assets at amortised cost includes trade and other receivables, and loan to a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments (cont'd)

Financial assets (cont'd)

Subsequent measurement (cont'd)

Investment in debt instruments (cont'd)

(ii) Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the asset's cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognized in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognized in profit or loss. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

The Group classifies its bill receivables as FVOCI.

(iii) Fair value through profit or loss

Asset that do not meet the criteria for amortised cost or FVOCI are measured a fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss in the period in which it arises.

The Group does not have debt instruments measured at fair value through profit or loss.

Investment in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. Dividends from such investments are to be recognized in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in OCI, changes in fair value are recognized in profit or loss.

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.

Derivatives

Derivatives are initially recognized at fair value on the date a derivative contracts is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognized in profit or loss.

The Group recognized its fair value changes in foreign exchange forward contract through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments (cont'd)

Financial assets (cont'd)

De-recognition

A financial asset is de-recognised where the contractual right from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in profit or loss.

Impairment of financial assets

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

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

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

For bill receivables at fair value through OCI, the Group assesses the credit risk of the financial institution, which issue the bills, at every reporting date. The Group evaluates whether the bills are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

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

Financial liabilities

Initial recognition and measurement

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

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(m) Financial instruments (cont'd)

Financial liabilities (cont'd)

Initial recognition and measurement (cont'd)

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.

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.

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

Subsequent to initial recognition, financial liability at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Loans and borrowings and payables

After initial recognition, loans and borrowings and payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

De-recognition

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

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(n) Inventories

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

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

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

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

(o) Impairment of non-financial assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(p) 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.

(q) 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.

(r) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(r) Borrowing costs (cont'd)

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.

(s) Provisions

General

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

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

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs relating to the assurance-type warranties, to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 12 to 60 months) or mileage (generally 50,000 to 360,000 kilometers), whichever is the lower. For other applications engines, warranties extend for a duration of generally 12 to 28 months or running hours of 1,000 to 3,500 hours, whichever is lower. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

(t) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(u) Share-based payments

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).

(v) Development properties

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

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

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.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(w) 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 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first time certain new standards or amendments to the standards, which are effective for annual periods beginning on or after January 1, 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each new standard or amendment are described below:

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue to be recognised 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the full retrospective method of adoption and applying the following practical expedients in accordance with the transitional provisions in IFRS 15:

- The Group has not restated contracts that begin and end within the same year or the contracts that were completed as at January 1, 2016. Had the Group elected not to apply this practical expedient the amount of revenue recorded for the prior year would have been lower.

- For the comparative year ended December 31, 2016, the Group has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the corresponding revenue is expected to be recognized.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

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

The effect of adopting IFRS 15 is, as follows:

Impact on statement of profit or loss (increase/(decrease))

	Adjustment	31.12.2016 RMB'000	31.12.2017 RMB'000
Revenue from contracts with customers	(a)	(21,645)	(24,623)
Cost of sales	(a)	(29,912)	134,349
Gross profit		8,267	(158,972)
Other income	(b)	–	(115,235)
Selling, general and administrative cost	(a)	(4,087)	(162,998)
Operating profit		12,354	(111,209)
Income tax expense	(b)	–	(25,995)
Profit for the year		12,354	(85,214)
Attributable to:			
Equity holders of the parent	(a)&(b)	9,440	(65,113)
Non-controlling interests	(a)&(b)	2,914	(20,101)

Impact on basic and diluted earnings per share (EPS) (increase/(decrease) in EPS)

	Adjustment	31.12.2016 RMB	31.12.2017 RMB
Earnings per share			
Basic	(a)&(b)	0.23	(1.60)
Diluted	(a)&(b)	0.23	(1.60)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

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

Impact on the consolidated statement of financial position (increase/(decrease)):

	Adjustment	1.1.2017 RMB'000	31.12.2017 RMB'000
Assets			
Intangible asset	(b)	(31,704)	–
Investments in associate and joint venture	(b)	(73,061)	–
Deferred tax assets	(b)	(25,995)	–
Total non-current assets		**(130,760)**	**–**
Trade and other receivables	(b)	50,000	–
Total current assets		**50,000**	**–**
Total assets		**(80,760)**	**–**
Equity and liabilities			
Contract liabilities	(a)	27,372	34,759
Total non-current liabilities		**27,372**	**34,759**
Trade and other payables	(b)	(170,000)	–
Contract liabilities	(a)	63,870	81,105
Provision for product warranty	(a)	(69,844)	(98,492)
Total current liabilities		**(175,974)**	**(17,387)**
Total liabilities		**(148,602)**	**17,372**
Equity			
Retained earnings	(a)&(b)	51,838	(13,275)
Non-controlling interests	(a)&(b)	16,004	(4,097)
Total equity		**67,842**	**(17,372)**
Total equity and liabilities		**(80,760)**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

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

Impact on the consolidated statement of cash flows (increase/(decrease)):

	Adjustment	31.12.2016 RMB'000	31.12.2017 RMB'000
Profit before tax	**(a)&(b)**	**12,354**	**(111,209)**
Adjustments:			
Gain on disposal of intangible asset	(b)	–	115,235
Profit before tax after adjustments	(a)&(b)	12,354	4,026
Changes in working capital			
Decrease in trade and other receivables	(b)	–	50,000
Increase in trade and other payables and contract liabilities	(a)	(12,354)	(4,026)
Cash flows from operating activities	**(a)&(b)**	**–**	**50,000**
Net cash flows from operating activities	**(a)&(b)**	**–**	**50,000**
Investing activities			
Proceeds from disposal of intangible asset	(b)	–	(50,000)
Net cash flows from investing activities	**(a)&(b)**	**–**	**(50,000)**

The change did not have impact on OCI for the period. The cash flows from financing activities were not affected.

The nature of these adjustments are described below:

(a) ***Sale of engines with service-type warranties***

In addition to assurance-type warranties, the Group provides warranty service to customers after certain on-road mileage or running hours which were previously accounted for as provision for product warranty. Under IFRS 15, such warranties are accounted for as service-type warranties and as separate performance obligations to which the Group allocates a portion of the transaction price. The portion of the transaction price allocated to the service-type warranty is initially recorded as contract liabilities and recognized as revenue upon the service rendered.

Upon adoption of IFRS 15, as at January 1, 2017, the Group recognized contract liabilities (current) of RMB 63.9 million and contract liabilities (non-current) of RMB 27.4 million related to unfulfilled service-type warranties, and decrease in provision for product warranty by RMB 69.8 million, decrease in retained earnings and non-controlling interests by RMB 16.3 million and RMB 5.0 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

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

(a) *Sale of engines with service-type warranties (cont'd)*

The statement of financial position as at December 31, 2017 was also restated, resulting in the recognition of contract liabilities (current) of RMB 81.1 million, contract liabilities (non-current) of RMB 34.8, decrease in provision for product warranty by RMB 98.5 million, and decrease in retained earnings and non-controlling interests by RMB 13.3 million and RMB 4.1 million, respectively. The consolidated statement of profit or loss for the financial year ended December 31, 2017 was also restated, resulting in decrease in revenue and selling, general and distribution expenses by RMB 24.6 million and RMB 163.0 million (2016: decrease by RMB 21.6 million and RMB 4.1 million), respectively, and increase in cost of sales by RMB 134.3 million (2016: decrease by RMB 29.9 million).

(b) Performance obligation

In 2017, the Group transferred the technology know-how for the heavy-duty engine platform to its joint venture company upon completion of all the project milestones and recognized net gain of RMB 115.2 million as other operating income.

With the adoption of IFRS 15, management concluded that the Group has significantly performed its performance obligation in 2015 and accordingly the income of RMB 115.2 million has to be recognized in 2015. Therefore, it resulted a decrease in other operating income of RMB 115.2 million and tax expense of RMB 26.0 million for the financial year ended December 31, 2017, and a corresponding restatement in the consolidated statement of financial position as at January 1, 2017, resulting in decrease in intangible asset by RMB 31.7 million, decrease in investment in associate and joint venture by RMB 73.1 million, decrease in deferred tax assets by RMB 26.0 million, increase in other receivables and prepayment by RMB 50.0 million, decrease in trade and other payables by RMB170.0 million, and increase in retained earnings and non-controlling interests by RMB 68.2 million and RMB 21.1 million, respectively.

IFRS 9 *Financial Instruments*

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The changes arising from the adoption of IFRS 9 had been applied without restating comparative information in the year of initial application. The impact arising from IFRS 9 adoption was included in the opening retained earnings at the date of initial application, January 1, 2018.

Classification and measurement

IFRS 9 requires debt instruments to be measured either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principle and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flow and create value for the entity either from collecting contractual cash flow, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at authorised cost if it also meets the SPPI requirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

IFRS 9 *Financial Instruments (cont'd)*

Classification and measurement (cont'd)

Debt instrument that meet the SPPI requirement that are held both to collect the assets' contractual cash flow and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they don't meet the criteria of FVOCI or amortized cost.

The assessment of the business model and whether the financial assets meet the SPPI requirement was made as of January 1, 2018 and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018.

The Group has determined that for its bills receivable, its business model is to hold the debt instrument to collect contractual cash flows and sell, and has accordingly, measured its bills receivables at FVOCI when it applies IFRS 9. As a result of the change in measurement of the Group's bills receivable previously measured at amortised cost to FVOCI, the carrying value of the bills receivable has decreased by RMB 137.3 million (US$20.5 million) with a corresponding adjustment to fair value reserve as at January 1, 2018.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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. These amendments do not have any impact on the Group's consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

New and amended standards and interpretations (cont'd)

IFRS 2 *Classification and Measurement of Share-based Payment Transactions–Amendments to IFRS 2 (cont'd)*

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 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 elect for retrospective application. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

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: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Annual improvements 2014-2016 cycle

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. This amendment is not applicable to the Group.

Amendments to 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 an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it 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 recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

IFRS 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, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

On the adoption of IFRS16, the Group expects to choose on a lease by leave basis, to measure the right-of-use assets, at either:

(i) its carrying amount as if IFRS16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of January 1, 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payment relating to that lease recognised in the balance sheet immediately before January 1, 2019.

In addition, the group plans to elect the following practical expedients:

(i) not to reassess whether a contract is or contains a lease at the date of initial application and to apply IFRS16 to all contracts that were previously identified as leases

(ii) to apply the exemption not to recognise right- of- use asset and lease liabilities to leases for which the lease term ends within 12 months as of January 1, 2019

(iii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

IFRS 16 *Leases (cont'd)*

Transition to IFRS 16 (cont'd)

The Group has performed a preliminary impact assessment of IFRS 16 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts IFRS 16 in 2019.

i. Leases in which the Group is a lessee

On the adoption of IFRS16, the Group expects to recognise right-of-use assets of RMB 89.4 million (US$13.4 million) and lease liability of RMB 108.3 million (US$16.2 million), decrease prepayment by RMB 1.9 million (US$0.3 million) and accrued expense by RMB 20.8 million (US$3.1 million) for its leases previously classified as the operating leases as of January 1, 2019.

ii. Leases in which the Group is a lessor

The Group expects no significant impact for other leases in which the Group is a lessor.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments (cont'd)*

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.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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 amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. The Group does not plan to early adopt the amendments and does not expect the amendments to have material impact to the Group.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

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

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 amendments 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, recognised 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 amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

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. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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, with early application permitted. These amendments will apply on future business combinations of the Group.

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 with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

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, with early application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

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

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

IAS 23 *Borrowing Costs–Borrowing costs eligible for capitalization (cont'd)*

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Judgments

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

Revenue from contracts with customers

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

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

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

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 de-recognition of bills receivable when discounted, the management believes that the contractual right to receive the cash flows from the asset have terminated with the Group, but transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 20.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

3.1 Judgments (cont'd)

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2017 and 2018 are RMB 315.4 million and RMB 361.2 million (US$54.0 million) respectively. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 160.0 million (US$23.9 million) for year ended December 31, 2018 (2017: RMB 182.7 million).

Development costs

Development costs are capitalized in accordance with the accounting policy in Note 2.3(l). Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

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.

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, 2017 and 2018 were RMB 106.9 million and RMB 93.6 million (US$14.0 million) respectively.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2017	31.12.2018
		%	%
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	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	People's Republic of China	76.4	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

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

	31.12.2016	31.12.2017	31.12.2018
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Accumulated balances of material NCI				
Yuchai		2,433,117	2,556,644	382,153
Profit allocated to material NCI				
Yuchai	212,927	270,452	252,394	37,726
Dividends paid to material NCI				
Yuchai	83,677	98,941	135,905	20,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

	31.12.2016 Yuchai RMB'000 (Restated)
Summarized statement of comprehensive income	
Revenue	13,576,842
Profit for the year, representing total comprehensive income for the year	738,733
Attributable to NCI	212,927
Summarized statement of cash flows	
Operating	2,329,367
Investing	(293,477)
Financing	(1,697,173)
Net increase in cash and cash equivalents	338,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

	31.12.2017 Yuchai RMB'000 (Restated)
Summarized statement of financial position	
Current assets	14,717,316
Non-current assets, excluding goodwill	4,693,931
Goodwill	212,636
Current liabilities	(9,327,449)
Non-current liabilities	(530,188)
Net assets	9,766,246
Total equity	9,766,246
Attributable to NCI	2,433,117
Summarized statement of comprehensive income	
Revenue	16,140,621
Profit for the year, representing total comprehensive income for the year	960,359
Attributable to NCI	270,452
Summarized statement of cash flows	
Operating	1,435,156
Investing	(215,817)
Financing	221,660
Net increase in cash and cash equivalents	1,440,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

	31.12.2018	
	Yuchai	
	RMB'000	US$'000
Summarized statement of financial position		
Current assets	15,498,171	2,316,583
Non-current assets, excluding goodwill	4,925,347	736,214
Goodwill	212,636	31,784
Current liabilities	(9,489,499)	(1,418,439)
Non-current liabilities	(828,993)	(123,913)
Net assets	10,317,662	1,542,229
Total equity	10,317,662	1,542,229
Attributable to NCI	2,556,644	382,153
Summarized statement of comprehensive income		
Revenue	16,210,467	2,423,053
Profit for the year, representing total comprehensive income for the year	867,438	129,660
Attributable to NCI	252,394	37,726
Summarized statement of cash flows		
Operating	701,716	104,889
Investing	(331,416)	(49,538)
Financing	(66,975)	(10,011)
Net increase in cash and cash equivalents	303,325	45,340

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 5,015.2 million (US$749.6 million) (2017: RMB 4,710.2 million) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Acquisition of additional interest in a joint venture in 2016 (cont'd)

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 1.1 million 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 0.3 million. 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.

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.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Disposal of subsidiaries in 2017 (cont'd)

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

	31.12.2017 RMB'000
Property, plant and equipment (Note 11)	104,844
Trade receivables and other receivables	3,257
Cash and bank balances	9,153
	117,254
Trade and other payables	(3,737)
Provision for taxation	(44)
Deferred taxation	(588)
Carrying value of net assets	112,885
Gain on disposal:	
Total consideration	395,000
Less: Cost of disposal	(47,532)
Total consideration less cost of disposal	347,468
Net assets derecognized	(112,885)
Realization of foreign translation reserves upon disposal	(18,468)
Gain on disposal of the subsidiaries (Note 8.2(a))	216,115
Total consideration less cost of disposal	347,468
Add: Transaction cost unpaid	33,287
Less: Retention sum receivables	(30,000)
Cash and bank balances of the subsidiaries	(9,153)
Net cash inflow on disposal of the subsidiaries	341,602

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENT IN ASSOCIATES

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

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Share of profit/(loss) of associates, net of tax	456	(28)	(59)	(9)

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Carrying amount of investment	2,185	2,130	318

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2017 %	Group's effective equity interest 31.12.2018 %
Held by subsidiaries				
Sinjori Sdn. Bhd.	Property investment and development	Malaysia	14.0	14.0
Guangxi Yuchai Quan Xing Machinery Co., Ltd. ("Quan Xing")	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

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Share of (loss)/profit of joint ventures, net of tax:				
Y & C Engine Co., Ltd	2,039	17,755	17,612	2,633
Copthorne Hotel Qingdao Co., Ltd [(i)]	(4,465)	–	–	–
MTU Yuchai Power Co., Ltd.	–	(8,487)	(6,882)	(1,029)
Other joint ventures.	(1,642)	814	963	144
	(4,068)	10,082	11,693	1,748

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Carrying amount of investments:			
Y & C Engine Co., Ltd	122,235	155,681	23,270
MTU Yuchai Power Co., Ltd	66,513	59,632	8,913
Other joint ventures	7,354	7,499	1,122
	196,102	222,812	33,305

Note:

(i) **Sales of 60% of the issued ordinary shares in the capital of Copthorne Qingdao Co., Ltd ("Copthorne Qingdao")**

The Group's subsidiary company, LKNII, 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 89.4 million and related foreign translation reserve is RMB 22.7 million.

On October 19, 2017, the Group completed the disposal of its investment in Copthorne Qingdao and recognized gain on disposal of RMB 108.0 million in the Group's profit or loss for the year ended December 31, 2017.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

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

	31.12.2017 RMB'000
Interest in joint venture, representing asset classified as held for sale	89,381
Gain on disposal:	
Total consideration less cost of disposal	182,679
Interest in joint venture derecognized	(89,381)
Realization of foreign currency translation reserves upon disposal	22,720
Waiver of amount due by joint venture	(8,042)
Gain on disposal of joint venture (Note 8.2(a))	107,976
Total consideration less cost of disposal, representing net cash inflow on disposal of the joint venture	182,679

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2017 %	31.12.2018 %
Held by subsidiaries				
HL Heritage Sdn. Bhd.	Property development and property investment holdings	Malaysia	30.1	30.1
Shanghai Hengshan Equatorial Hotel Management Co., Ltd.	Hotel and property management	People's Republic of China	24.6	24.6
Y & C Engine Co., Ltd ("Y&C")	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	34.4	34.4
Guangxi Yineng IOT Science & Technology Co., Ltd.	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	15.3	15.3
MTU Yuchai Power Co., Ltd ("MTU Yuchai Power")	Manufacture off-road diesel engines	People's Republic of China	38.2	38.2
Eberspaecher Yuchai Exhaust Technology Co. Ltd ("Eberspaecher Yuchai") (i)	Application development, production, sales and service on engine exhaust control systems	People's Republic of China	–	37.4

Note:
(i) Eberspaecher Yuchai was incorporated on December 5, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

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

In 2017 and 2018, 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:

		31.12.2016	
	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

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2017		
	Y & C RMB'000	MTU RMB'000	Total RMB'000
Non-current assets	734,270	32,015	766,285
Current assets			
–Cash and bank balances	199,925	113,055	312,980
–Others	367,293	22,775	390,068
Total assets	1,301,488	167,845	1,469,333
Non-current liabilities	(13,543)	–	(13,543)
Current liabilities			
–Loans and borrowings	(13,500)	–	(13,500)
–Others	(842,765)	(34,820)	(877,585)
Total liabilities	(869,808)	(34,820)	(904,628)
Equity	431,680	133,025	564,705
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
Carrying amount of other joint ventures			7,354
Carrying amount of the investment in joint ventures			196,102

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2017		
	Y & C RMB'000	MTU RMB'000	Total RMB'000
Revenue	1,331,823	–	1,331,823
Depreciation and amortization	(20,831)	(227)	(21,058)
Interest expense	(28,663)	(343)	(29,006)
Profit/(loss) for the year, representing total comprehensive income for the year	55,982	(16,973)	39,009
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
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			814
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			10,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2018			
	Y & C RMB'000	MTU RMB'000	Total RMB'000	Total US$'000
Non-current assets	755,671	72,342	828,013	123,767
Current assets				
–Cash and bank balances	113,061	21,707	134,768	20,145
–Others	646,751	209,022	855,773	127,916
Total assets	1,515,483	303,071	1,818,554	271,828
Non-current liabilities	(46,603)	–	(46,603)	(6,966)
Current liabilities				
–Loans and borrowings	(51,534)	–	(51,534)	(7,703)
–Others	(942,306)	(174,242)	(1,116,548)	(166,896)
Total liabilities	(1,040,443)	(174,242)	(1,214,685)	(181,565)
Equity	475,040	128,829	603,869	90,263
Proportion of the Group's ownership	45%	50%		
Group's share of net assets	213,768	64,415		
Unrealized profit on transactions with joint venture	(58,087)	(4,783)		
Carrying amount of significant joint ventures	155,681	59,632	215,313	32,183
Carrying amount of other joint ventures			7,499	1,122
Carrying amount of the investment in joint ventures			222,812	33,305

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2018			
	Y & C RMB'000	MTU RMB'000	Total RMB'000	Total US$'000
Revenue	1,443,238	160,580	1,603,818	239,730
Depreciation and amortization	(45,254)	(3,744)	(48,998)	(7,324)
Interest expense	(24,605)	(1,689)	(26,294)	(3,930)
Profit/(loss) for the year, representing total comprehensive income for the year	43,359	(4,197)	39,162	5,854
Proportion of the Group's ownership	45%	50%		
Group's share of profit	19,512	(2,099)		
Unrealized profit on transactions with joint venture	(1,900)	(4,783)		
Group's share of profit of significant joint ventures	17,612	(6,882)	10,730	1,604
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			963	144
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year			11,693	1,748

Note:

As of December 31, 2018, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 38.0 million (US$5.7 million) (2017: RMB 30.0 million).

As of December 31, 2018, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB 98.0 million (US$14.6 million) (2017: RMB Nil).

As of December 31, 2018, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 1.7 million (US$0.2 million) (2017: RMB 23.3 million).

Significant restrictions

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

The Group's share of cash and cash equivalents of RMB 27.3 million (US$4.1 million) (2017: RMB 67.2 million) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

As at December 31, 2018, the Group's share of restricted trade receivables of RMB Nil (US$Nil) (2017: RMB 6.8 million) that were factored to large banks in China. The Group's joint venture have obligation to the banks for its trade receivables with recourse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENT IN JOINT VENTURES (CONT'D)

Significant restrictions (cont'd)

As at December 31, 2018, the Group's share of restricted cash of RMB 0.7 million (US$0.2 million) (2017: RMB Nil) which was used as collateral by the banks for letter of credit facilities granted.

As at December 31, 2018, the Group's share of restricted cash of RMB 33.8 million (US$11.2 million) (2017: RMB 80.5 million) which was used as collateral by the banks for the issuance of bills to suppliers.

As at December 31, 2018, the Group's share of bills receivables of RMB Nil (US$Nil) (2017: RMB 12.2 million) which was used as collateral by banks for the issuance of bills to suppliers.

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

7.1 Disaggregated revenue information

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

	31.12.2018			
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**	**Total US$'000**
Type of goods or services				
Heavy-duty engines	4,934,435	–	4,934,435	737,573
Medium-duty engines	5,537,164	–	5,537,164	827,665
Light-duty engines	2,481,554	–	2,481,554	370,929
Other products and services(i)	3,213,237	–	3,213,237	480,297
Revenue from hospitality operations	44,077	52,781	96,858	14,478
Total revenue from contract with customers	16,210,467	52,781	16,263,248	2,430,942
Geographical markets				
People's Republic of China	16,119,896	–	16,119,896	2,409,515
Other countries	90,571	52,781	143,352	21,427
Total revenue from contract with customers	16,210,467	52,781	16,263,248	2,430,942
Timing of revenue recognition				
At a point in time	16,166,390	–	16,166,390	2,416,464
Over time	44,077	52,781	96,858	14,478
Total revenue from contract with customers	16,210,467	52,781	16,263,248	2,430,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

7.1 Disaggregated revenue information (cont'd)

	31.12.2017		
Segments	Yuchai RMB'000	HLGE RMB'000	Total RMB'000
Type of goods or services			
Heavy-duty engines	5,182,930	–	5,182,930
Medium-duty engines	5,620,202	–	5,620,202
Light-duty engines	2,147,728	–	2,147,728
Other products and services[(i)]	3,148,016	–	3,148,016
Revenue from hospitality operations	41,746	57,197	98,943
Total revenue from contract with customers	16,140,622	57,197	16,197,819
Geographical markets			
People's Republic of China	16,073,461	17,265	16,090,726
Other countries	67,161	39,932	107,093
Total revenue from contract with customers	16,140,622	57,197	16,197,819
Timing of revenue recognition			
At a point in time	16,098,876	–	16,098,876
Over time	41,746	57,197	98,943
Total revenue from contract with customers	16,140,622	57,197	16,197,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

7.1 Disaggregated revenue information (cont'd)

	31.12.2016		
Segments	Yuchai RMB'000	HLGE RMB'000	Total RMB'000
Type of goods or services			
Heavy-duty engines	3,813,500	–	3,813,500
Medium-duty engines	5,213,373	–	5,213,373
Light-duty engines	1,724,616	–	1,724,616
Other products and services[(i)]	2,783,921	–	2,783,921
Revenue from hospitality operations	41,432	66,353	107,785
Total revenue from contract with customers	13,576,842	66,353	13,643,195
Geographical markets			
People's Republic of China	13,436,629	24,005	13,460,634
Other countries	140,213	42,348	182,561
Total revenue from contract with customers	13,576,842	66,353	13,643,195
Timing of revenue recognition			
At a point in time	13,535,410	–	13,535,410
Over time	41,432	66,353	107,785
Total revenue from contract with customers	13,576,842	66,353	13,643,195

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

7.2 Contract balances

	1.1.2017 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Trade receivables (Note 20)	241,168	212,104	408,000	60,985
Contract assets (Note 20)	–	–	44,434	6,642
Contract liabilities (Note 28)	213,286	233,329	340,489	50,894
Refund liabilities (Note 26)	755,092	717,955	761,521	113,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

7.2 Contract balances (cont'd)

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

ii. Contract assets are the costs incurred in fulfilling a contract for the development of technology know-how for heavy–duty engines platforms for a joint venture company of the Group. Contract assets will be expensed off when the Group performs the contract.

The transaction prices allocated to the remaining performance obligation pursuant to this contract, committed at the reporting date but not recognised as liabilities amounted to RMB 149.0 million and expected to be realised within next three years upon the completion of services.

iii. The contract liabilities comprise short-term advance from customers and unfulfilled maintenance service. The advance from customers is recognised as revenue upon the delivery of goods, and the contract liability arising from unfulfilled service-type warranty is recognized upon the completion of the maintenance services. According to the business customary practice, the remaining performance obligations (unfulfilled maintenance service) at the year end is expected to be satisfied within 1-3 years.

iv. Refund liabilities arise from sales rebates granted to the Yuchai customers.

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.

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Cost of sales	322,289	307,102	312,769	46,751
Research and development expenses	56,812	48,291	26,751	3,999
Selling, general and administrative expenses	99,059	88,788	94,365	14,105
	478,160	444,181	433,885	64,855

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

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Selling, general and administrative expenses	159,023	208,197	211,971	31,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2 (a) Other operating income

	31.12.2016 RMB'000	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Interest income	56,983	105,421	147,244	22,009
Dividend income from quoted equity securities	943	2,532	1,992	298
Gain on disposal of:				
–associate	–	199	–	–
–joint venture (Note 6)	–	107,976	–	–
–property, plant and equipment	–	11,668	8,835	1,321
–subsidiaries (Note 4)	–	216,115	–	–
Government grants	41,515	34,337	32,237	4,819
Fair value gain on quoted equity securities	–	12,768	–	–
Fair value gain on foreign exchange forward contract	–	–	4,529	677
Write-back of trade and other payables	–	29	–	–
Foreign exchange gain, net	–	30,943	1,071	160
Others	18,513	10,129	9,235	1,379
	117,954	532,117	205,143	30,663

8.2 (b) Other operating expenses

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Loss on disposal of:				
–property, plant and equipment	14,020	–	–	–
Foreign exchange loss, net	4,006	–	–	–
Fair value loss on quoted equity securities	243	–	3,433	513
Fair value loss on foreign exchange forward contract	140	–	–	–
Goodwill written off	1,131	–	–	–
Others	3,059	22,719	9,030	1,350
	22,599	22,719	12,463	1,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.3 Finance costs

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Bank term loans	34,477	53,888	71,513	10,689
Corporate bonds	27,581	–	–	–
Bills discounting	13,068	42,179	36,826	5,505
Bank charges	4,552	4,367	4,749	710
Finance lease	5	5	–	–
	79,683	100,439	113,088	16,904

8.4 Staff costs

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Wages and salaries	922,847	1,158,320	1,176,465	175,852
Contribution to defined contribution plans	275,703	258,190	296,073	44,255
Executive bonuses	44,921	59,908	57,674	8,621
Staff welfare	81,223	76,392	76,689	11,463
Staff severance cost	12,864	107,732	28,018	4,188
Cost of share-based payment	5,301	1,592	–	–
Others	20,340	1,870	8,441	1,262
	1,363,199	1,664,004	1,643,360	245,641

9. INCOME TAX EXPENSE

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

	31.12.2016 RMB'000	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Current income tax				
–Current year	104,149	197,264	209,448	31,307
–Under/(over) provision in respect of prior years	7,175	(2,867)	(729)	(109)
Deferred tax				
–Movement in temporary differences	48,946	(225)	(2,052)	(307)
Consolidated income tax expense reported in the statement of profit or loss	160,270	194,172	206,667	30,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE (CONT'D)

Income tax expense reported in the consolidated statement of profit or loss differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2018, 2017 and 2016 for the following reasons:

	31.12.2016 RMB'000	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Accounting profit before tax	896,232	1,514,028	1,181,067	176,538
Computed tax expense of 15% (2017: 15%, 2016: 15%)	134,435	227,104	177,160	26,481
Adjustments resulting from:				
Non-deductible expenses	7,039	21,982	5,146	769
Tax-exempt income	(178)	(58,324)	(3,634)	(543)
Utilization of deferred tax benefits previously not recognized	(5,010)	(16,687)	(5,518)	(825)
Deferred tax benefits not recognized	9,045	8,084	2,183	326
Tax credits for research and development expense	(34,482)	(34,428)	(22,407)	(3,349)
Tax rate differential	25,321	21,061	24,437	3,653
Under/(over) provision in respect of previous years current tax	7,175	(2,867)	(729)	(109)
Withholding tax expense	16,925	29,447	30,029	4,488
Others	–	(1,200)	–	–
Total	160,270	194,172	206,667	30,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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			
	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000	31.12.2016 RMB'000 (Restated)	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Deferred tax liabilities							
Accelerated tax depreciation	(15,122)	(27,554)	(4,119)	373	(4,601)	(12,432)	(1,859)
Unremitted earnings from overseas source income	–	–	–	(25)	–	–	–
Interest receivable	(774)	(2,252)	(336)	(1,471)	679	(1,478)	(221)
Derivatives not designated as hedges- foreign exchange forward contract	–	–	–	2,326	–	–	–
PRC withholding tax on dividend income (i)	(100,572)	(106,922)	(15,982)	(16,628)	(29,031)	(29,842)	(4,460)
	(116,468)	(136,728)	(20,437)	(15,425)	(32,953)	(43,752)	(6,540)
Deferred tax assets							
Impairment of property, plant and equipment	12,319	15,943	2,383	(9,005)	9,443	3,624	542
Write-down of inventories	17,493	16,060	2,400	(4,421)	(3,716)	(1,433)	(214)
Allowance for doubtful account receivables	7,376	5,177	774	7,196	(1,964)	(2,199)	(329)
Accruals	204,730	204,554	30,576	(46,350)	18,778	(186)	(28)
Deferred income	51,679	95,499	14,275	10,045	6,743	43,820	6,550
Others	21,793	23,974	3,583	9,014	3,894	2,178	326
	315,390	361,207	53,991	(33,521)	33,178	45,804	6,847
				(48,946)	225	2,052	307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE (CONT'D)

Deferred tax (cont'd)

Note:

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
At January 1	(103,347)	(100,572)	(15,033)
Provision made to consolidated statement of profit or loss	(29,031)	(29,842)	(4,460)
Utilization	31,806	23,492	3,511
December 31	(100,572)	(106,922)	(15,982)

The Corporate Income Tax ("CIT") law provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profit earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a deferred tax liability for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2018, the deferred tax liability for withholding tax payable was RMB 106.9 million (US$16.0 million) (2017: RMB 100.6 million). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 249.2 million (US$37.3 million) (2017: RMB 228.0 million).

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Deferred tax assets	315,390	361,207	53,991
Deferred tax liabilities	(116,468)	(136,728)	(20,437)
	198,922	224,479	33,554

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Unutilized tax losses	479,410	396,232	59,227
Unutilized capital allowances and investment allowances	107,266	107,588	16,082
Other unrecognized temporary differences relating to asset impairment and deferred grants	230,269	222,868	33,312
	816,945	726,688	108,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE (CONT'D)

Deferred tax (cont'd)

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 is 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 is 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:

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Profit attributable to ordinary equity holders of the parent	525,177	888,809	695,266	103,925
Weighted average number of ordinary shares	40,016,808	40,764,569	40,858,290	40,858,290

Diluted earnings per share

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

	31.12.2016	31.12.2017	31.12.2018
Weighted average number of shares issued, used in the calculation of basic earnings per share	40,016,808	40,764,569	40,858,290
Diluted effect of share options	–	–	–
Weighted average number of ordinary shares adjusted for effect of dilution	40,016,808	40,764,569	40,858,290

In 2018, 470,000 (2017: 470,000; 2016: 530,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Leasehold land, buildings and improvements RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Office furniture, fittings and equipment RMB'000	Motor and transport vehicles RMB'000	Total RMB'000
Cost							
At January 1, 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 and January 1, 2018	13,993	2,322,868	281,096	5,156,834	179,954	117,136	8,071,881
Additions	–	2,971	359,574	12,465	20,671	10,214	405,895
Disposals	–	(2,203)	(2,258)	(26,142)	(4,510)	(4,917)	(40,030)
Transfers	–	16,845	(167,900)	151,055	–	–	–
Write-off	–	(185)	(1,056)	(55,709)	(3,512)	(4,843)	(65,305)
Translation difference	437	2,249	732	199	485	93	4,195
At December 31, 2018	14,430	2,342,545	470,188	5,238,702	193,088	117,683	8,376,636
Accumulated depreciation and impairment							
At 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 and January 1, 2018	484	691,450	1,055	3,358,712	121,526	74,636	4,247,863
Charge for the year	–	77,783	–	338,132	18,832	6,218	440,965*
Disposals	–	(1,005)	–	(26,471)	(3,582)	(4,555)	(35,613)
Write-off	–	(183)	(1,055)	(54,686)	(3,512)	(4,604)	(64,040)
Impairment loss	–	–	–	30,173	–	–	30,173
Translation difference	15	275	–	124	287	45	746
At December 31, 2018	499	768,320	–	3,645,984	133,551	71,740	4,620,094
Net book value							
At December 31, 2017	13,509	1,631,418	280,041	1,798,122	58,428	42,500	3,824,018
At December 31, 2018	13,931	1,574,225	470,188	1,592,718	59,537	45,943	3,756,542
US$'000	2,082	235,307	70,281	238,071	8,899	6,868	561,508

* In 2018, RMB 15.3 million (US$ 2.3 million) (2017: RMB Nil) and RMB 5.4 million (US$ 0.8 million) (2017: RMB Nil) were capitalized as intangible assets and contract assets, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

An impairment loss of RMB 30.2 million (US$ 4.5 million) (2017: RMB 20.8 million; 2016: RMB 3.3 million) 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 2016, 2017 and 2018 was due to assets that were not in use.

As of December 31, 2018, there was no property, plant and equipment (2017: RMB 82.7 million) pledged to secure bank facilities.

Finance leases

The carrying value of property, plant and equipment held under finance leases at December 31, 2018 was less than RMB 0.1 million (less than US$ 0.1 million) (2017: RMB 0.1 million). In 2018, there was no addition of property, plant and equipment under finance leases (2017: RMB Nil).

12. INVESTMENT PROPERTY

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Cost			
At January 1	31,776	32,944	4,924
Translation difference	1,168	1,028	154
At December 31	32,944	33,972	5,078
Accumulated depreciation			
At January 1	24,478	25,510	3,813
Charge for the year	248	884	132
Translation difference	784	813	122
At December 31	25,510	27,207	4,067
Net carrying amount	7,434	6,765	1,011
Fair value	10,557	10,886	1,627
Consolidated statements of profit or loss:			
Rental income from an investment property	372	437	65
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	(508)	(314)	(47)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INVESTMENT PROPERTY (CONT'D)

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

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2018	Market comparison and cost method	Comparable price: – RMB 156 to RMB 428 (US$23 to US$64) per square foot	The estimated fair value increases with higher comparable price
2017	Market comparison and cost method	Comparable price: – RMB 151 to RMB 415 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.

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Current	12,546	12,546	1,875
Non-current	367,270	354,546	52,996
Total	379,816	367,092	54,871

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Cost			
At January 1 and December 31	529,577	529,577	79,158
Accumulated amortization			
At January 1	137,395	149,761	22,385
Charge for the year	12,366	12,724	1,902
At December 31	149,761	162,485	24,287
Net carrying amount	379,816	367,092	54,871

As of December 31, 2017 & 2018, no prepaid operating leases are pledged to secure bank facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. GOODWILL

	RMB'000	US$'000
Cost		
At January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	218,311	32,632
Accumulated impairment		
At January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	5,675	848
Net carrying amount		
At December 31, 2017 and December 31, 2018	212,636	31,784

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

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

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

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Yuchai	212,636	212,636	31,784

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 13.96% (2017: 12.84%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. GOODWILL (CONT'D)

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

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 6.3% and 6.5% for 2018 and 2017 respectively.

Sensitivity to changes in assumptions

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

Profit from operation–A decreased demand can lead to a decline in profit from operation. A decrease in demand by 1.00% (2017: 2.37%) would result in impairment.

Discount rate–A rise in pre-tax discount rate to 14.28% (2017: 14.82%) in the Yuchai unit would result in impairment.

Growth rate assumptions–Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 5.77% (2017: 2.98%) in the long-term growth rate in Yuchai unit would result in impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS

	Technology know how RMB'000 (Restated)	Development costs RMB'000	Total RMB'000 (Restated)
Cost			
At January 1, 2017, December 31, 2017 and January 1, 2018	–	136,822	136,822
Addition	–	195,879	195,879
Transfer	136,822	(136,822)	–
At December 31, 2018	136,822	195,879	332,701
Amortisation and impairment			
At January 1, 2017	–	86,700	86,700
Charge to consolidated statement of profit or loss	–	40,000	40,000
At December 31, 2017 and January 1, 2018	–	126,700	126,700
Transfer	126,700	(126,700)	–
At December 31, 2018	126,700	–	126,700
Net carrying amount			
At December 31, 2016	–	50,122	50,122
At December 31, 2017	–	10,122	10,122
At December 31, 2018	10,122	195,879	206,001
US$'000	1,513	29,279	30,792

Technology know-how held by Jining Yuchai

At December 31, 2017, the Group has an intangible asset representing technology development costs held by Jining Yuchai with carrying amount of RMB 10.1 million.

In 2016, management performed impairment review 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, subsequent to the impairment loss of RMB 60.0 million and RMB26.7 million recorded in 2014 and 2015, respectively, a further impairment loss of RMB 40.0 million was charged to consolidated statement of profit or loss under the line item "selling, distribution and administrative costs".

In 2017, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS (CONT'D)

Technology know-how held by Jining Yuchai (cont'd)

If the pre-tax discount rate increased by 1% from management estimates, the Group's impairment loss on intangible asset in Jining Yuchai would increase by RMB 6.7 million.

In 2018, the development for 4Y20 engine platform was completed and the technical development costs with carrying amount of RMB 10.1 million as at December 31, 2017 was recognized as the Group's technology know-how.

In 2018, the Group has commenced the production of 4Y20 engine in view of the market demand. As such, management believe that there is no indicator for further impairment.

Development costs

During 2018, the Group has capitalized development costs of RMB 195.9 million (US$29.3 million) for new engines that comply with National VI and Tier 4 emission standards. These development costs relate to on-going development efforts and, accordingly, have not yet been brought into use, and therefore no amortization charges were recorded. The National VI for on-road vehicles is expected to be implemented by mid-2020, and the Tier 4 emission standard for off-road vehicles is expected to be implemented within the next 2 years.

Annually, the Group performs an impairment test on the development costs that have not yet been brought into use. No impairment has been identified.

The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. The Group used a 11 years forecast which is based on the financial budgets approved by the senior management covering 8 years' period from 2019 to 2026, and a further 3 years of forecast with no terminal value. Management has assessed the useful life of the development costs to be 10 years commencing from 2020, the year which National VI and Tier 4 emission standards are expected to be implemented.

The calculation of value in use is most sensitive to the following assumptions:

- Profit from operation–Profit from operation is based on management's estimate with reference to historical revenue generated and growth rate. The revenue growth rate is estimated to be 5% year on year.

- Discount rate–Discount rate reflects management's estimate of the risks specific to the cash-generating unit and is estimated based on weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the cash-generating unit is obliged to service. This rate is weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group. The Group has applied a pre-tax discount rate of 13.96%.

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 3.3% would result in impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS (CONT'D)

Development costs (cont'd)

Sensitivity to changes in assumptions (cont'd)

Discount rate–A rise in pre-tax discount rate to 26.3% would result in impairment.

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

16. OTHER FINANCIAL LIABILITIES

(a) Other liabilities

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Finance lease liabilities (Note 30)	79	48	7

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Current	33	14	2
Non-current	46	34	5
Total	79	48	7

(b) Loans and borrowings

	Effective interest rate %	Maturity	31.12.2017 RMB'000
Current			
Renminbi denominated loans	3.99	2018	1,600,000
Non-current			
Malaysian Ringgit denominated loans	5.95	2020	11,685
Singapore Dollar denominated loans[iii]	1.88	2020	14,656
			26,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. OTHER FINANCIAL LIABILITIES (CONT'D)

(b) Loans and borrowings (cont'd)

	Effective interest rate %	Maturity	31.12.2018 RMB'000	31.12.2018 US$'000
Current				
Renminbi denominated loans	4.26	2019	1,500,000	224,212
US dollar denominated loans (ii)	3.48	2019	501,014	74,889
			2,001,014	299,101
Non-current				
Singapore Dollar denominated loans (iii)	2.84	2020	15,078	2,254

Note:

(i) All loans balances as stated above do not have a callable feature.
(ii) The loan was secured by the Group's bill receivables of RMB 524.1 million (US$78.3 million).
(iii) The loans comprise:

Issuer bank	Facility limit	Usage RMB'000
December 31, 2017		
MUFG Bank Ltd	S$ 30 million	14,656
December 31, 2018		
MUFG Bank Ltd	S$ 30 million	15,078
	US$'000	2,254

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

On June 1, 2018, the Company entered into a three-year revolving uncommitted credit facility agreement with DBS with an aggregate value of S$30.0 million to refinance the S$30.0 million facility that matured on May 22, 2018. Among other things, the terms of the facility required that (i) HLA retains ownership of the special share, at all-time retains at least 35% ownership of the Company and that the Company remain a consolidated subsidiary of HLA, (ii) the Company at all-time retains at least 76.4% ownership in Yuchai and (iii) HLGE remains listed on the Main Board of Singapore Exchange. The terms of the facility also included certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not being less than US$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

16. OTHER FINANCIAL LIABILITIES (CONT'D)

(b) 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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
At January 1	337,889	353,647	52,861
Received during the year	50,095	282,388	42,210
Released to consolidated statement of profit or loss	(34,337)	(28,427)	(4,249)
At December 31	353,647	607,608	90,822
Current (Note 26)	22,270	22,082	3,301
Non-current	331,377	585,526	87,521
	353,647	607,608	90,822

The government grant that have been received was to support and fund Yuchai's production facilities, research and development activities for new engines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INVENTORIES

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Raw materials	1,188,396	1,243,955	185,940
Work in progress	34,924	30,038	4,490
Finished goods	1,349,425	1,243,871	185,927
Total inventories at the lower of cost and net realizable value	2,572,745	2,517,864	376,357

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Inventories recognized as an expense in cost of sales	9,308,265	11,021,960	11,471,988	1,714,771
Inclusive of the following charge/(credit):				
—Inventories written down	48,202	17,492	25,194	3,766
—Reversal of write-down of inventories	(53,373)	(37,393)	(33,662)	(5,032)

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

19. OTHER ASSETS

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Current			
Development properties	23,833	20,267	3,029
Quoted equity securities (i)	24,714	21,876	3,270
Derivative not designated as hedges–foreign exchange forward contract (iii)	–	4,529	677
	48,547	46,672	6,976

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Non-current			
Deferred expenditure (ii)	303	–	–

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

19. OTHER ASSETS (CONT'D)

Note:
(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 was transferred to the profit or loss upon completion of sales in 2018.
(iii) On September 19, 2018, Yuchai entered into a non-deliverable forward foreign exchange contract ("NDF") with China Construction Bank to purchase US$73.0 million at the forward exchange rate (RMB/US$) of 6.8599 on September 13, 2019. The Group accounted for this NDF at fair value through "other operating income" in the statement of profit or loss.

20. TRADE AND OTHER RECEIVABLES

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Current			
Trade receivables, gross	255,879	438,586	65,557
Less: expected credit losses	(43,775)	(30,586)	(4,572)
Net trade receivables	212,104	408,000	60,985
Bill receivables (i)	6,819,440	6,981,106	1,043,498
Total (Note 7.2, Note 35)	7,031,544	7,389,106	1,104,483
Amounts receivable:			
–associates and joint ventures (trade)	13,180	174	26
–associates and joint ventures (non-trade)	49	56,405	8,431
–related parties (trade)	29,573	32,702	4,888
–related parties (non-trade)	7,703	2,156	322
Staff advances	5,107	5,513	824
Interest receivables	4,345	8,220	1,229
Bills receivable in transit	32,013	8,850	1,323
Retention sums (ii)	30,000	–	–
Others	10,705	23,456	3,506
Loans and receivables (Note 35)	132,675	137,476	20,549
Tax recoverable	177,819	140,316	20,974
Prepayments	73,896	118,389	17,696
Net other receivables	384,390	396,181	59,219
Total trade and other receivables	7,415,934	7,785,287	1,163,702
Non-current			
Contract assets	–	44,434	6,642
Other receivables (Note 35):			
–associates and joint ventures (non-trade)	620	–	–
Total trade and other receivables	620	44,434	6,642

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES (CONT'D)

Note:

(i) As of December 31, 2018, bill receivables include bills issued by joint venture and related parties amounted to RMB 18.1 million (US$2.7 million) (2017: RMB 69.8 million) and RMB 16.8 million (US$2.5 million) (2017: RMB 23.8 million) respectively.

As of December 31, 2018, bill receivables of RMB 558.6 million (US$83.5 million) (2017: RMB Nil) are pledged to secure bank facilities.

(ii) Retention sums relate to money deposits in an escrow account pending finalization of tax payable for the disposal of LKNII. In 2018, the retention sums was transferred to a joint signatory account with the buyer of LKNII pending payment of tax payable for the disposal of LKNII.

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.

The non-trade receivable due from joint ventures comprised of a loan of RMB 50.0 million (US$7.5 million) (2017: RMB Nil) that is unsecured, interest at 4.35% per annum and repayable on demand. Other than that, non-trade balance from associates, joint ventures and other related parties are unsecured, interest-free, and repayable on demand.

Non-current non-trade receivables due from associate and joint ventures are unsecured and non-interest bearing. In 2017, these amounts are not expected to be repaid within the next 12 months. In 2018, these amounts are repayable on demand.

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
At January 1	54,634	43,775	6,543
Credit to consolidated statement of profit or loss	(10,854)	(11,052)	(1,652)
Written off	(5)	(2,137)	(319)
At December 31	43,775	30,586	4,572

As of December 31, 2017 and 2018, outstanding bill receivables discounted with banks for which the Group retained a recourse obligation totaled RMB 1,505.8 million and RMB 1,272.4 million (US$190.2 million) respectively. All bill receivables discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2017 and 2018, outstanding bill receivables endorsed to suppliers with recourse obligation were RMB 1,316.1 million and RMB 1,627.5 million (US$243.3 million) respectively.

As of December 31, 2017 and 2018, gross trade receivables due from a major customer group, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 24.6 million and RMB 54.1 million (US$8.1 million), respectively. See Note 32 for further discussion of customer concentration risk.

For terms and conditions relating to related parties, refer to Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. CASH AND CASH EQUIVALENTS

SHORT-TERM BANK DEPOSITS

RESTRICTED CASH

LONG-TERM BANK DEPOSITS

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Non-current			
Long-term bank deposits (i)	70,000	70,000	10,463
Current			
Cash and cash equivalents	5,390,324	5,559,890	831,062
Long-term bank deposits (i)	—	70,000	10,463
Short-term bank deposits (ii)	514,074	356,926	53,352
Restricted cash	54,809	71,706	10,718
	5,959,207	6,058,522	905,595
Cash and bank balances	6,029,207	6,128,522	916,058

Note:

(i) In 2018, YMMC placed two-year time deposits of RMB 70.0 million (US$10.5 million) (2017: RMB 70.0 million) at annual interest rate range from 2.94% to 3.15% (2017: 2.94% to 3.15%) with banks. These long-term deposits are not considered as cash equivalents.

As at December 31, 2018, the two-year time deposits placed in 2017 has remaining maturity period of less than 12-months. Accordingly, this has been classified as current in 2018.

(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, 2018 for the Group ranged from 1.40% to 3.90% (2017: 1.01% to 1.97%). 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, 2018 for the Group ranged from 1.30% to 3.28% (2017: 0.87% to 3.28%).

As at December 31, 2018, the Group's restricted cash comprised of RMB 31.6 million (US$4.7 million) (2017: RMB 45.3 million) which was used as collateral by the banks for the issuance of bills to suppliers and RMB 40.1 million (US$6.0 million) (2017: RMB 9.5 million) relates to retention money deposited in a joint signatory account with the buyer of LKNII pending payment of tax payable for the disposal of LKNII. The Group's share of joint ventures' restricted cash is disclosed in Note 6.

As of December 31, 2017 and 2018, the Group had RMB 474.4 million and RMB 492.8 million (US$73.7 million) respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2016, 2017 and 2018 were RMB 0.4 million, RMB 0.2 million and RMB 0.2 million (less than US$0.1 million) respectively.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

22. ISSUED CAPITAL AND PREFERENCE SHARES

	31.12.2017 thousands	31.12.2018 thousands
Issued capital		
Authorized shares		
Ordinary share of par value US$0.10 each	100,000	100,000

	Number of shares	RMB'000
Ordinary shares issued and fully paid		
At January 1, 2017	40,712,100	2,059,076
Issued of shares as dividend payment (Note 23)	99,790	12,897
Issued of shares upon exercised of share options (Note 25)	46,400	9,165
At December 31, 2017 and 2018	40,858,290	2,081,138
US$'000		311,077

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$0.10 per share	*	*	*
Non-redeemable convertible cumulative preference shares	21	–	–

* 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 dollar per share, with total value equivalent to RMB 12.9 million.

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.

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.

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

22. ISSUED CAPITAL AND PREFERENCE SHARES (CONT'D)

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.

In 2018, HLGE has converted all of the existing issued and outstanding NCCPS into new ordinary shares in the capital of the HLGE at a conversion ratio of one Ordinary Share for every 10 NCCPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. DIVIDENDS DECLARED AND PAID

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2018: US$0.73 per share (2017: US$0.90 per share)	248,844	197,353	29,499
Special dividend paid in 2018: US$1.48 per share (2017: US$Nil per share)	—	400,106	59,806
	248,844	597,459	89,305
Dividend paid in cash	235,947	597,459	89,305
Dividend paid in shares (Note 22)	12,897	—	—
	248,844	597,459	89,305

24. RESERVES

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Statutory reserve			
Statutory general reserve (ii)			
At January 1	273,438	275,320	41,154
Transfer from retained earnings	1,882	1,378	206
At December 31	275,320	276,698	41,360
General surplus reserve (iii)			
At January 1 and December 31	25,706	25,706	3,842
Total	301,026	302,404	45,202

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

24. RESERVES (CONT'D)

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Other components of equity			
Foreign currency translation reserve (i)	(82,939)	(39,215)	(5,862)
Performance shares reserve (ii)	19,758	19,758	2,953
Premium paid for acquisition of non-controlling interests	(11,541)	(11,541)	(1,725)
Fair value reserve (iii)	–	(79,948)	(11,950)
Total	(74,722)	(110,946)	(16,584)

Note:

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

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

(iii) Fair value reserve relates to the subsequent measurement of the Group's bill receivables at fair value through OCI.

25. SHARE-BASED PAYMENT

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

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

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

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

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

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

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Expense arising from equity-settled share-based payment transactions	5,301	1,592	–	–
Total expense arising from share-based payment transactions	5,301	1,592	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. SHARE-BASED PAYMENT (CONT'D)

Movements during the year

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

	Number of share options 2017	WAEP 2017	Number of share options 2018	WAEP 2018
Outstanding at January 1	530,000	US$21.11 dollar	470,000	US$21.11 dollar
Exercised during the year	(46,400)	US$21.11 dollar	—	US$21.11 dollar
Cancelled during the year	(13,600)	US$21.11 dollar	—	US$21.11 dollar
Outstanding at December 31	470,000	US$21.11 dollar	470,000	US$21.11 dollar
Exercisable at December 31	470,000	US$21.11 dollar	470,000	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	**On July 29, 2014**
Fair value at measurement date (US$)	5.70 dollar – 6.74 dollar
Share price (US$)	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

The exercise price for options outstanding as at December 31, 2018 was US$21.11 dollar (2017: US$21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2018 was 5.6 (2017: 6.6) years.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. TRADE AND OTHER PAYABLES

	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Current			
Trade payables	2,476,447	2,495,482	373,011
Bills payables (i)	2,700,676	2,065,147	308,687
Other payables	366,604	329,632	49,272
Accrued expenses	125,492	168,235	25,147
Accrued staff costs	622,893	666,641	99,646
Refund liabilities (Note 7.2)	717,955	761,521	113,828
Dividend payable	39,786	43,133	6,447
Amount due to:			
–associates and joint ventures (trade)	88,085	262,131	39,182
–associates and joint ventures (non-trade)	14,026	66	10
–related parties (trade)	93,161	145,747	21,786
–related parties (non-trade)	31,515	32,034	4,788
Financial liabilities at amortized cost (Note 35)	7,276,640	6,969,769	1,041,804
Other tax payable	51,387	38,823	5,803
Trade and other payables with liquidity risk (Note 32)	7,328,027	7,008,592	1,047,607
Deferred grants (Note 17)	22,270	22,082	3,301
Advance from customers	387	369	55
Total trade and other payables (current)	7,350,684	7,031,043	1,050,963

(i) As of December 31, 2018, the bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 131.8 million (US$19.7 million) (2017: RMB 63.6 million), RMB 4.2 million (US$0.6 million) (2017: RMB 8.6 million) and RMB 62.8 million (US$9.4 million) (2017: RMB 114.7 million) respectively.

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Non-current			
Provision for bonus (i)	148,287	160,091	23,930
Deferred income (ii)	8,060	–	–
Other payables (non-current) (Note 32, Note 35)	156,347	160,091	23,930

(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 was transferred to the profit or loss upon completion of the sale in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. TRADE AND OTHER PAYABLES (CONT'D)

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- For terms and conditions relating to related parties, refer to Note 29.

27. PROVISION FOR PRODUCT WARRANTY

	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
At January 1	169,006	191,814	28,671
Provision made	249,517	224,582	33,569
Provision utilized	(226,709)	(249,483)	(37,291)
At December 31	191,814	166,913	24,949

28. CONTRACT LIABILITIES

	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Unfulfilled maintenance services	115,864	191,728	28,658
Advance from customer	117,465	148,761	22,236
Total	233,329	340,489	50,894
Current	198,570	286,786	42,867
Non-current	34,759	53,703	8,027
Total contract liabilities (Note 7.2)	233,329	340,489	50,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY DISCLOSURES

The ultimate parent

As of December 31, 2018, the controlling shareholder of the Company, HLA, indirectly owned 17,059,154, or 41.8% (2017: 16,360,845, or 40.0%), 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% (2017: 23.3%) of the ordinary shares in the capital of the Company and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 18.5% (2017: 16.7%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of RMB 0.03 million (US$0.01 million) during the financial years ended December 31, 2016, 2017 and 2018 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2018, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2017: 17.2%) of the ordinary shares in the capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY DISCLOSURES (CONT'D)

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

	31.12.2016 RMB'000	31.12.2017 RMB'000 (Restated)	31.12.2018 RMB'000	31.12.2018 US$'000
Sales of engines and materials				
–associates and joint ventures	219,724	412,591	439,106	65,635
–SHC (including its subsidiaries and affiliates)	447,509	455,061	406,422	60,750
Purchase of material, supplies and engines				
–associates and joint ventures	308,610	914,211	1,192,322	178,222
–SHC (including its subsidiaries and affiliates)	1,028,358	1,221,421	1,589,638	237,610
Purchase of service				
–a joint venture	2,121	2,543	–	–
Hospitality, restaurant, consultancy and other service income charged to				
–a joint venture	–	14,241	3,456	517
–SHC (including its subsidiaries and affiliates)	13,634	25,728	24,015	3,590
Rental income				
–SHC (including its subsidiaries and affiliates)	5,454	4,483	3,886	581
–a joint venture	–	–	1,937	290
Property management service expenses				
–an associates	20,976	–	–	–
–SHC (including its subsidiaries and affiliates)	–	22,212	26,547	3,968
Leasing expenses				
–SHC (including its subsidiaries and affiliates)	4,715	8,676	25,705	3,842
General and administrative expenses				
–SHC (including its subsidiaries and affiliates)	14,309	20,215	21,607	3,230
–HLA (including its affiliates)	6,887	6,913	6,639	992
Delivery, storage, distribution and handling expenses				
–SHC (including its subsidiaries and affiliates)	193,258	210,406	228,195	34,109
Purchases of vehicles and machineries				
–SHC (including its subsidiaries and affiliates)	–	52,443	6,144	918
Purchases of additional shareholding in a subsidiary from				
–SHC (including its subsidiaries and affiliates) (i)	–	1,335	–	–
Disposal of shareholding in an associate to				
–SHC (including its subsidiaries and affiliates) (ii)	–	1,833	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY DISCLOSURES (CONT'D)

Note:
(i) In June 2017, GYAMC acquired 25% of equity interest in Crankshaft from State Holding Company with a purchase consideration of RMB 1.3 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.

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.

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

Compensation of key management personnel of the Group

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Short-term employee benefits	31,975	40,831	39,703	5,935
Contribution to defined contribution plans	415	385	335	50
Cost of share-based payment	4,387	1,294	–	–
	36,777	42,510	40,038	5,985

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

30. COMMITMENTS AND CONTINGENCIES

Operating lease commitments–Group as lessee

The Group has entered into commercial leases on a land, and motor vehicles, office space with lease term of between 1 and 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. COMMITMENTS AND CONTINGENCIES (CONT'D)

Operating lease commitments–Group as lessee (cont'd)

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Within 1 year			
–related parties	5,578	22,020	3,291
–third parties	14,058	11,238	1,680
After 1 year but within 5 years			
–related parties	1,724	51,683	7,725
–third parties	14,003	16,759	2,505
After 5 years			
–third parties	–	–	–
	35,363	101,700	15,201

The minimum lease payments recognized as an expense for the financial year ended December 31, 2016, 2017 and 2018 amounted to RMB 30.2 million, RMB 30.7 million and RMB 49.8 million (US$7.4 million).

Operating lease commitments–Group as lessor

The Group leased out some of its assets, including surplus office and warehouse.

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Within 1 year			
–related parties	184	1,248	187
–joint venture	–	2,308	345
–third parties	1,438	1,391	208
After 1 year but within 5 years			
–related parties	268	1,030	154
–joint venture	–	9,087	1,358
–third parties	2,491	1,463	219
After than 5 years			
–related parties	1,310	455	68
–joint venture	–	9,272	1,386
	5,691	26,254	3,925

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

30. 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:

	31.12.2017		31.12.2018			
	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	33	33	14	2	14	2
Later than one year but not later than five years	46	46	34	5	34	5
Total minimum lease payments	79	79	48	7	48	7
Less: Amount representing finance charges	*	*	*	*	*	*
Present value of minimum lease payments	79	79	48	7	48	7

* Less than RMB 1 thousand (US$1 thousand)

Capital commitments

As of December 31, 2017 and 2018, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid amounting to RMB 409.5 million and RMB 774.5 million (US$115.8 million) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2017 and 2018, the Group has commitment of RMB Nil and RMB 58.8 million (US$8.8 million) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2017 and 2018, Yuchai had issued irrevocable letter of credits of RMB 1.9 million and RMB 93.5 million (US$14.0 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. COMMITMENTS AND CONTINGENCIES (CONT'D)

Product liability

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

Environmental liability

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

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

31. SEGMENT INFORMATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (CONT'D)

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

Year ended December 31, 2016	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue	13,576,842	66,353	–	–	13,643,195
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)	(89)	(16,628)[1]	(160,270)
Segment profit after tax	777,393	(4,548)	(20,255)	(16,628)[1]	735,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (CONT'D)

Year ended December 31, 2017	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue	16,140,622	57,197	–	–	16,197,819
Results					
Interest income	94,760	1,803	11,833	(2,975)	105,421
Interest expense	(94,794)	(3,983)	(270)	2,975	(96,072)
Gain on disposal of subsidiaries	–	216,115	–	–	216,115
Gain on disposal of joint venture	–	107,976	–	–	107,976
Impairment of property, plant and equipment	(20,845)	–	–	–	(20,845)
Impairment of technology development cost	(40,000)	–	–	–	(40,000)
Staff severance cost	(107,732)	–	–	–	(107,732)
Depreciation and amortization	(433,921)	(9,990)	(270)	–	(444,181)
Share of profit of associates and joint venture	9,255	799	–	–	10,054
Income tax expense	(164,578)	(461)	(102)	(29,031)(1)	(194,172)
Segment profit after tax	1,004,019	322,160	22,708	(29,031)(1)	1,319,856
Total assets	19,623,882	451,096	2,440,532	(1,500,451)	21,015,059
Total liabilities	(9,857,637)	(66,920)	(28,026)	(100,572)(2)	(10,053,155)
Other disclosures					
Investment in joint ventures	193,476	2,626	–	–	196,102
Capital expenditure	259,068	975	1,390	–	261,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (CONT'D)

Year ended December 31, 2018	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000	Consolidated financial statements US$'000
Revenue						
Total external revenue	16,210,467	52,781	–	–	16,263,248	2,430,942
Results						
Interest income	124,653	4,244	18,347	–	147,244	22,009
Interest expense	(107,609)	(403)	(327)	–	(108,339)	(16,194)
Impairment of property, plant and equipment	(30,173)	–	–	–	(30,173)	(4,510)
Staff severance cost	(28,018)	–	–	–	(28,018)	(4,188)
Depreciation and amortization	(428,199)	(5,355)	(331)	–	(433,885)	(64,855)
Share of profit of associates and joint venture	10,809	825	–	–	11,634	1,739
Income tax expense	(175,956)	(820)	(49)	(29,842)(1)	(206,667)	(30,891)
Segment profit after tax	1,019,776	4,156	(19,690)	(29,842)(1)	974,400	145,647
Total assets	20,636,155	441,040	2,081,220	(1,500,451)	21,657,964	3,237,315
Total liabilities	(10,318,492)	(55,404)	(29,592)	(106,922)(2)	(10,510,410)	(1,571,039)
Other disclosures						
Investment in joint ventures	220,176	2,636	–	–	222,812	33,305
Capital expenditure	403,179	2,643	73	–	405,895	60,671

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

31. SEGMENT INFORMATION (CONT'D)

Geographic information

Revenue from external customers:

	31.12.2016 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
People's Republic of China	13,460,634	16,090,726	16,119,896	2,409,515
Other countries	182,561	107,093	143,352	21,427
	13,643,195	16,197,819	16,263,248	2,430,942

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

Revenue from one customer group amounted to RMB 4,463.9 million (US$667.2 million) (2017: RMB 4,839.6 million; 2016: RMB 3,580.9 million), arising from sales by Yuchai segment.

Non-current assets

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
People's Republic of China	4,524,988	4,665,990	697,447
Other countries	94,779	95,443	14,266
	4,619,767	4,761,433	711,713

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, and cash and bank deposits that derive directly from its operations. The Group also holds quoted equity securities and enters into derivative transactions.

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

Market risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Market risk (cont'd)

The sensitivity analyses in the following sections relate to the position as at December 31, 2017 and 2018.

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, 2018.

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 (2017: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2018 of the Group would increase/decrease by RMB 20.6 million (US$3.3 million) (2017: increase/decrease by RMB 22.0 million).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's sales, purchases and financial liabilities that are denominated in currencies other than the respective functional currencies of entities within the Group. The Group also holds cash and bank balances and other investments denominated in foreign currencies. The currencies giving rise to this risk are primarily the Singapore Dollar, Renminbi, US Dollar and Euro.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Foreign currency risk (cont'd)

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

	31.12.2017				
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Renminbi RMB'000	Others RMB'000
Quoted equity securities	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

	31.12.2018				
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Renminbi RMB'000	Others RMB'000
Quoted equity securities	21,876	—	—	—	—
Trade and other receivables	693	25,827	12,149	675	—
Cash and bank balances	220,268	1,166	28,518	31,662	25
Financial liabilities	(15,126)	—	(501,014)	—	—
Trade and other payables	(13,952)	(17,452)	(7,060)	(41,828)	—
Net assets/(liabilities)	213,759	9,541	(467,407)	(9,491)	25
US$'000	31,952	1,426	(69,865)	(1,419)	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. 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		
	31.12.2017	**31.12.2018**	**31.12.2018**
	RMB'000	**RMB'000**	**US$'000**
Singapore Dollar	41,585	21,376	3,195
Euro	(937)	954	143
US Dollar	4,522	(46,741)	(6,987)
Renminbi	(3,504)	(949)	(142)

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:

	31.12.2017	**31.12.2018**	**31.12.2018**
	RMB'000	**RMB'000**	**US$'000**
Statement of profit or loss	2,471	2,188	327

Credit risk

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

Trade receivables and contract assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Credit risk (cont'd)

Trade receivables and contract assets (cont'd)

An impairment analysis is performed at each reporting date using a provision matrix. The provision rates are determined based on the profiles of the customers. The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The allowance account in respect of trade receivables is used to record expected credit 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.

The Group's historical experience in the collection of trade receivables and contract balances 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.

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

		Trade receivables				
			Days past due			
As at December 31, 2017	**Total RMB'000**	**Current RMB'000**	**0 – 90 days RMB'000**	**91 – 180 days RMB'000**	**181 – 365 days RMB'000**	**>365 days RMB'000**
Estimated total gross carrying amount at default	255,879	99,908	59,967	21,623	30,353	44,028
Expected credit loss	43,775	–	–	–	661	43,114

			Trade receivables				
				Days past due			
As at December 31, 2018	**Total RMB'000**	**Contract assets RMB'000**	**Current RMB'000**	**0 – 90 days RMB'000**	**91 – 180 days RMB'000**	**181 – 365 days RMB'000**	**>365 days RMB'000**
Expected credit loss rate	6.3%	–	–	0.1%	–	6.3%	75.1%
Estimated total gross carrying amount at default	483,020	44,434	281,250	47,561	25,862	47,209	36,704
Expected credit loss	30,586	–	–	30	–	2,990	27,566

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Credit risk (cont'd)

Trade receivables and contract assets (cont'd)

At December 31, 2018, the Group had top 20 customers (2017: top 20 customers) that owed the Group more than RMB 114.2 million (US$17.1 million) (2017: RMB 57.2 million) and accounted for approximately 26.0% (2017: 22.4%) of trade receivables (excluding bills receivables) respectively. These customers are located in the PRC. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20. 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.

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

As at December 31, 2017	1 year or less RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Financial assets				
Trade and bills receivables	7,075,319	–	–	7,075,319
Other receivables, excluding tax recoverable	132,675	620	–	133,295
Cash and bank balances	6,029,207	–	–	6,029,207
Quoted equity securities	24,714	–	–	24,714
	13,261,915	620	–	13,262,535
Financial liabilities				
Loans and borrowings	1,624,539	27,874	–	1,652,413
Trade and other payables (Note 26)	7,328,027	156,347	–	7,484,374
Other liabilities	33	46	–	79
	8,952,599	184,267	–	9,136,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Liquidity risk (cont'd)

As at December 31, 2018	1 year or less RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Total US$'000
Financial assets					
Contract assets	–	44,434	–	44,434	6,642
Trade and bills receivables	7,419,692	–	–	7,419,692	1,109,055
Other receivables, excluding tax recoverable	137,476	–	–	137,476	20,549
Cash and bank balances	6,128,522	–	–	6,128,522	916,058
Quoted equity securities	21,876	–	–	21,876	3,270
Derivative not designated as hedges–foreign exchange forward contract	4,529	–	–	4,529	677
	13,712,095	44,434	–	13,756,529	2,056,251
Financial liabilities					
Loans and borrowings	2,033,519	15,196	–	2,048,715	306,231
Trade and other payables (Note 26)	7,008,592	160,091	–	7,168,683	1,071,537
Other liabilities	14	34	–	48	7
	9,042,125	175,321	–	9,217,446	1,377,775

33. 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).

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2018 US$'000
Loans and borrowings (current and non-current) (Note 16(b))	1,626,341	2,016,092	301,355
Trade and other payables (current and non-current) (Note 26)	7,507,031	7,191,134	1,074,893
Less: Cash and bank balances (Note 21)	(6,029,207)	(6,128,522)	(916,058)
Net debts	3,104,165	3,078,704	460,190
Equity attributable to equity holders of the parent	8,334,287	8,395,849	1,254,966
Total capital and net debts	11,438,452	11,474,553	1,715,156

NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS

33. 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, 2017 and 2018.

As disclosed in Note 24, 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, 2017 and 2018.

34. FAIR VALUE MEASUREMENT

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2017:

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets measured at fair value					
Quoted equity securities:					
Quoted equity shares–TCL (Note 19)	December 31, 2017	24,714	24,714	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. FAIR VALUE MEASUREMENT (CONT'D)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2018:

			Fair value measurement using		
	Date of valuation	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Assets measured at fair value					
Quoted equity securities:					
Quoted equity shares–TCL (Note 19)	December 31, 2018	21,876	21,876	–	–
Derivative financial assets:					
Foreign exchange forward contract– USD (i) (Note 19)	December 31, 2018	4,529	–	4,529	–
Debt financial assets (ii):					
Bill receivables (Note 20)	December 31, 2018	6,981,106	–	6,981,106	–

Note:

(i) Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.

(ii) The fair value of the Group's debt financial assets is measured based on quoted market interest rates of similar instruments.

There have been no transfers between Level 1 and Level 2 during 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised costs RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As at December 31, 2017					
Financial assets					
Quoted equity securities	19	24,714	–	–	24,714
Trade and bill receivables	20	–	7,031,544	–	7,031,544
Other receivables	20	–	133,295	–	133,295
Cash and bank balances	21	–	6,029,207	–	6,029,207
		24,714	13,194,046	–	13,218,760
Financial liabilities					
Trade and other payables	26	–	–	7,432,987	7,432,987
Loans and borrowings	16(b)	–	–	1,626,341	1,626,341
Other liabilities	16(a)	–	–	79	79
		–	–	9,059,407	9,059,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D)

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000	Total US$'000
As at December 31, 2018							
Financial assets							
Quoted equity securities	19	21,876	—	—	—	21,876	3,270
Derivative not designated as hedges–foreign exchange forward contract	19	4,529	—	—	—	4,529	677
Trade and bill receivables	20	—	408,000	6,981,106	—	7,389,106	1,104,483
Other receivables	20	—	137,476	—	—	137,476	20,549
Cash and bank balances	21	—	6,128,522	—	—	6,128,522	916,058
		26,405	6,673,998	6,981,106	—	13,681,509	2,045,037
Financial liabilities							
Trade and other payables	26	—	—	—	7,129,860	7,129,860	1,065,734
Loans and borrowings	16(b)	—	—	—	2,016,092	2,016,092	301,355
Other liabilities	16(a)	—	—	—	48	48	7
		—	—	—	9,146,000	9,146,000	1,367,096

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D)

Changes in liabilities arising from financing activities

	January 1, 2017 RMB'000	Cash flows RMB'000	Foreign exchange movement RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2017 RMB'000
As at December 31, 2017						
Loans and borrowings						
–current	894,136	705,109	755	–	–	1,600,000
–non-current	16,270	9,376	879	(184)	–	26,341
Obligations under finance leases						
–current	38	(38)	–	9	24	33
–non-current	70	–	–	–	(24)	46
Total liabilities from financing activities	910,514	714,447	1,634	(175)	–	1,626,420

	January 1, 2018 RMB'000	Cash flows RMB'000	Foreign exchange movement RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2018 RMB'000	December 31, 2018 US$'000
As at December 31, 2018							
Loans and borrowings							
–current	1,600,000	400,320	694	–	–	2,001,014	299,101
–non-current	26,341	(11,756)	(305)	798	–	15,078	2,254
Obligations under finance leases							
–current	33	(33)	–	–	14	14	2
–non-current	46	–	–	2	(14)	34	5
Total liabilities from financing activities	1,626,420	388,531	389	800	–	2,016,140	301,362

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

[THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

REFERENCE **INFORMATION**

US TRANSFER AGENT AND REGISTRAR
Computershare
480 Washington Blvd. 26th Floor
Jersey City. NJ07310

SHAREHOLDER WEBSITE
www.computershare.com/investor

INVESTOR RELATIONS
BlueFocus Communication Group of America
c/o Awaken Advisors
800 3rd Avenue
28th Floor
New York, NY 10022

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

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

Designed and typeset by
Donnelley Financial Solutions

China Yuchai International Limited

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

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