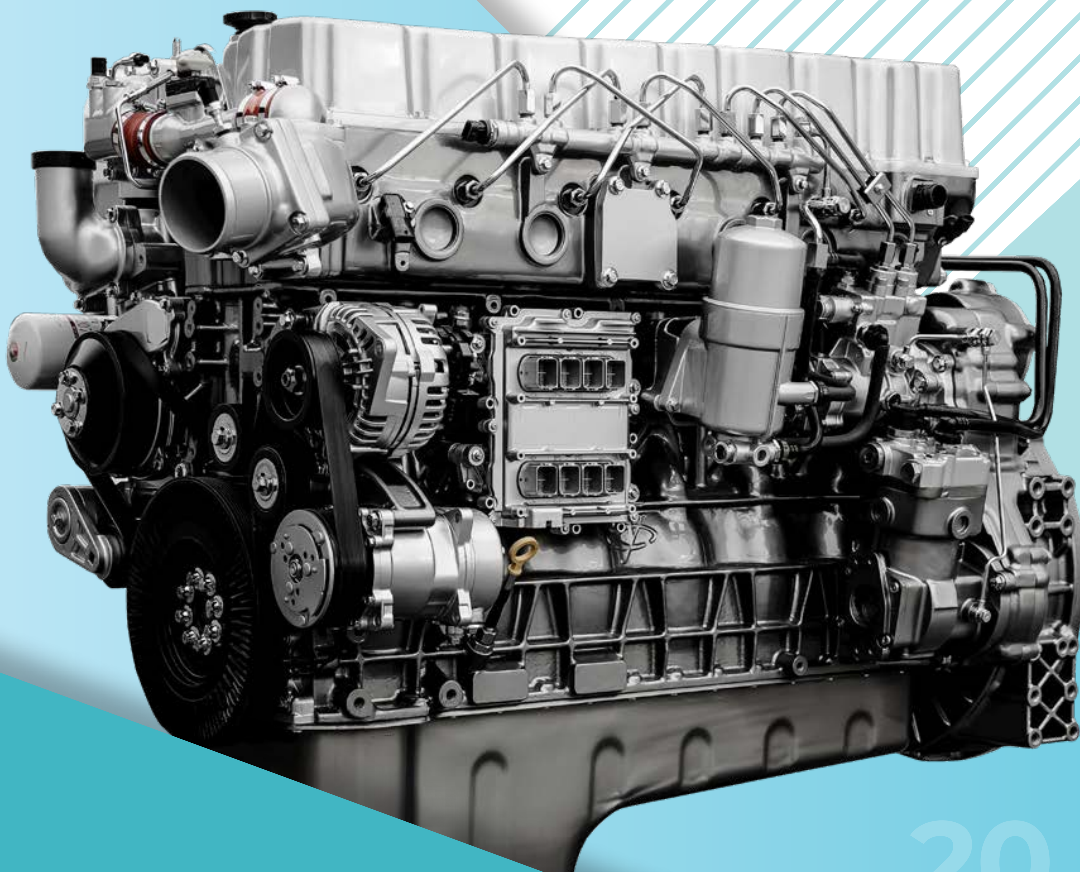
China Yuchai International Limited



SHARPENING OUR EDGE **SHAPING THE FUTURE**

2019 ANNUAL REPORT

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The YCK09 engine compliant with National VI emission standards is for use in medium to heavy-duty trucks, highway coaches and buses. It has a displacement volume of 9.41 liter and a maximum power output of 380 PS with a maximum torque of 1800 N-m.

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

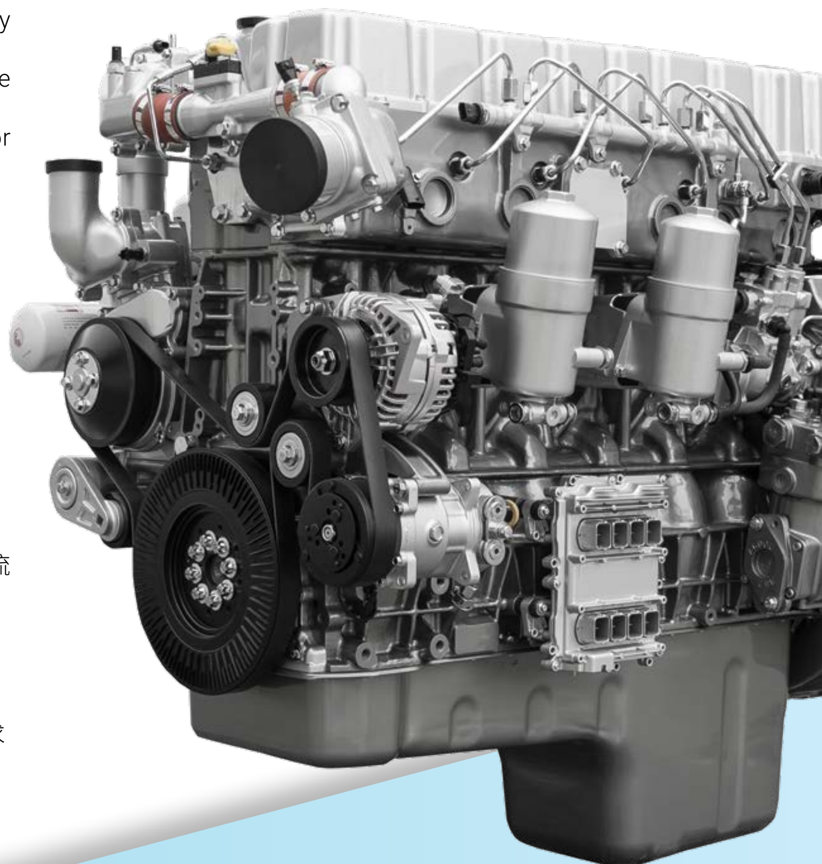
玉柴国际的
核心理念

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



The YCK11 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, highway coach and buses over 10m. It has a displacement volume of 10.84 liter and a maximum power output of 460 PS with a maximum torque of 2200 N-m. The YCK11 engine was launched in 2019.

FINANCIAL HIGHLIGHTS

	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	16,197,819	16,263,248	**18,016,085**
Profit attributable to equity holders of the parent*	888,809	695,266	**604,914**
Total assets	21,015,059	21,657,964	**23,854,191**
Equity attributable to equity holders of the parent	8,334,287	8,395,849	**8,767,529**

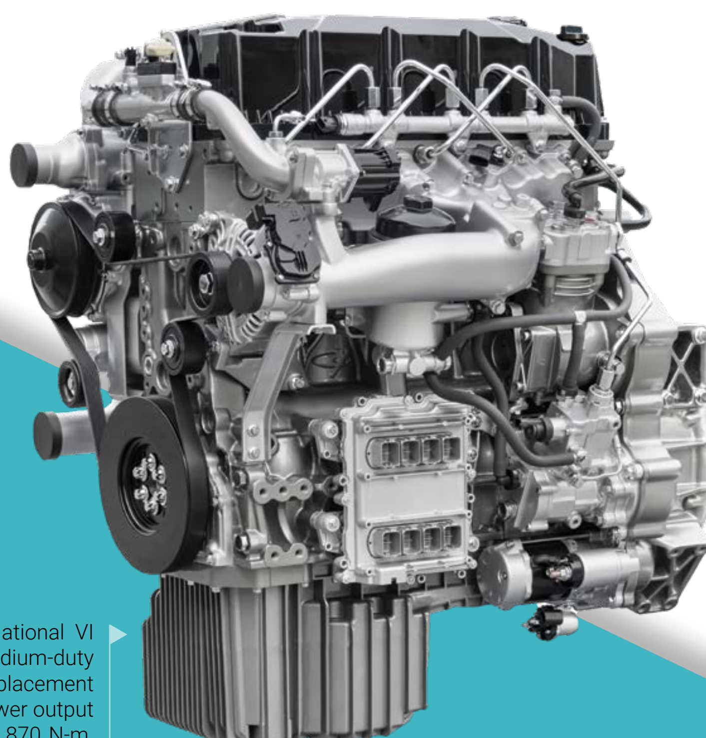
	2017 RMB	2018 RMB	2019 RMB
Earnings per share attributable to ordinary equity holders of the parent (RMB per share)	21.80	17.02	**14.81**
Weighted average number of shares	40,764,569	40,858,290	**40,858,290**

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

WE SOLD

376,148

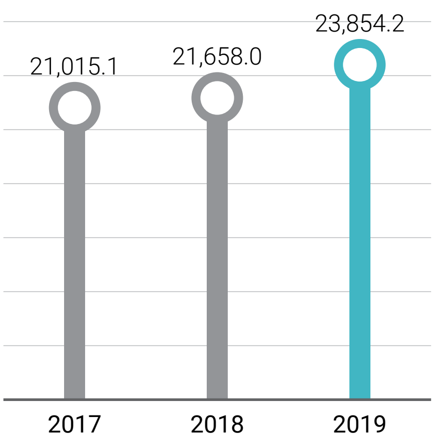
UNITS OF ENGINES



The YCK05 engine compliant with National VI emission standards is for use in medium-duty trucks, coaches and buses. It has a displacement volume of 5.1 liter and a maximum power output of 230 PS with a maximum torque of 870 N-m. The YCK05 engine was launched in 2019.

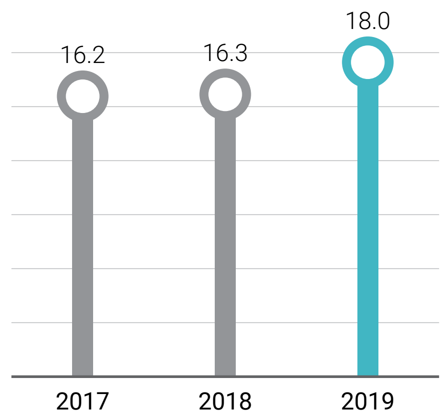
FINANCIAL HIGHLIGHTS

TOTAL ASSETS
(RMB Million)

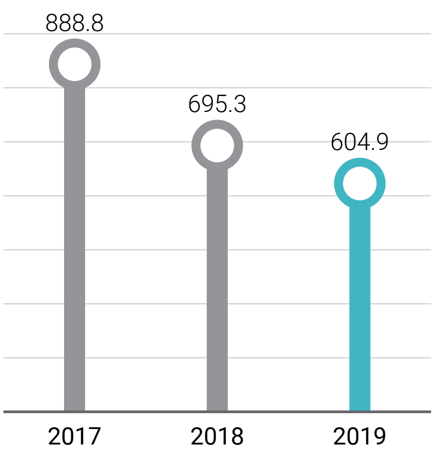


EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(RMB Million)

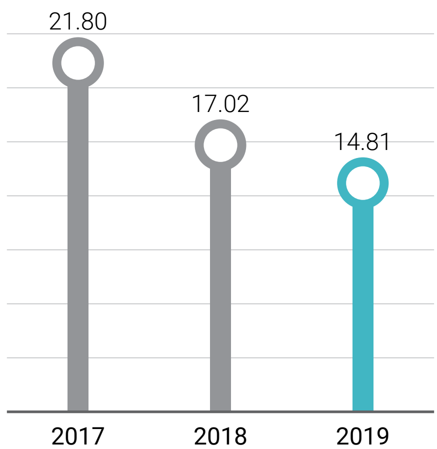
REVENUE
(RMB Billion)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(RMB Million)



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



PRESIDENT'S STATEMENT

Dear Shareholders,

China Yuchai International achieved solid progress in the 2019 year as our revenue rose by 10.8% to RMB 18.0 billion (US$ 2.5 billion) in an uncertain market, compared with 2018. We increased our revenues despite a soft domestic economy as China's GDP grew at the slowest annual growth rate in the last 29 years. At a 6.1% annual GDP growth rate, industrial output grew by 5.7% in 2019, slowing from 6.2% in 2018. However, we persisted in spite of the economic impact of the U.S.-China trade war, and the gradual implementation of new and more stringent emission standards. With our strong product offerings to address the end-market demands, we maintained our market share in some key market segments and increased in others. Our broad portfolio of commercial vehicle engines, compliant with the more stringent National VI and Tier-4 emission standards, was among the first group of engines introduced into the Chinese markets in 2019.

The auto industry in China is not only the world's largest, but also has a profound economic and social impact on modern China. Reviewing the 2019 Chinese auto industry statistics provided by the China Association of Automobile Manufacturers ("CAAM"), annual on-road commercial vehicle unit sales (excluding gasoline–powered and electric-powered vehicles) decreased by 4.5% year-over-year in 2019. This downturn was attributable to a 4.7% decline in the unit truck segment and a 2.6% decrease in unit bus sales.

Yuchai's cylinder head foundry product line

REVENUE

RMB 18.0

BILLION

Despite the challenging environment, our commercial engine unit sales were 376,148 units in 2019 compared with 375,731 units in 2018. Our overall truck engine sales declined by 1.2%, but outperformed a wider year-over-year loss in the overall truck market. Our heavy-duty truck engine sales achieved a double-digit growth compared with 2018 sales, partially driven by the success of our new National VI natural gas engines. Our bus engine sales decreased by 10.1% year-over-year, but closed out the year with an 11.7% increase in the fourth quarter of 2019. Unit sales of off-road engines continued to grow as a contributor to total sales with an increase of 9.3% in 2019, led by a double-digit growth in industrial engine sales.

Commercial vehicle sales were weak in 2019 as the first stage of the National VI emission standards was implemented on July 1, 2019 for natural gas engine-powered vehicles. Our new natural gas National VI truck engines were well received in the marketplace in the fourth quarter of 2019. Overall sales to the bus engine market increased by 11.7% in the fourth quarter of 2019, led by a double-digit growth in both the heavy- and medium-duty bus engine markets.

More than ever, we are committed to investing in our future. In 2019, our R&D expenditures, including capitalized costs, were RMB 859.0 million (US$ 121.2 million) and represented 4.8% of revenue, compared with RMB 643.5 million, representing 4.0% of revenue, in 2018. This investment in R&D was focused on mainly honing our portfolio of new engines compliant with the next-generation National VI and Tier-4 emission standards.

Changes in emission standards present both challenges and opportunities. The new National VI and Tier-4 emission standards are platforms that immensely reduce emissions compared with the previous standards, but required extensive technology changes to diesel and natural gas engines. These two new emission standards will make major reductions in Nitrogen Oxide (NOx) and Particulate Matter (PM) emissions. Reduced emissions will improve the air quality and the health of the Chinese population, especially the large number of people who reside in the many cities across the country.

PRESIDENT'S STATEMENT

Mandatory nationwide implementation of National VI diesel engines is expected to be enforced by July 2021. Part of our growth strategy has been to develop next-generation engines before the government's mandatory implementation. In this way, we offer our customers and potential customers the ability to work with these new engines before the national implementation. We also capture vital experience with these technologies so that we can quickly make improvements. Being among the first to introduce new advanced engines fortifies our reputation as a technological leader and enhances our market position. In 2018, we launched a suite of engine models compliant with the National VI and Tier-4 engines standards. In addition, the model YCK08 engine became the first domestic diesel engine certified to comply with the even more stringent National VI(b) emission standard, which is expected to be mandatory in mid-summer 2023 and is considered to be the most stringent in the automotive history of China. Our National VI and Tier-4 production lines are prepared for production.

Our new National VI-compliant engines have also resulted in new strategic partnerships in 2019 with Shaanxi Automobile Holding Group, a producer of heavy-duty trucks in China, and with the Foton Motor Group for product support for National VI-compliant engines and technologies. Our National VI engines are generating greater interest as the national implementation deadline approaches.

To improve both the technology content and cost competitiveness of our engines, our joint venture with Eberspaecher, Eberspaecher Yuchai Exhaust Technology Co. Ltd., is ramping up production of its exhaust emission control systems for the Chinese commercial vehicle market to meet National VI and Tier-4 emission standards. These advanced emission control systems will enhance the emission performance of our engines for both on- and off-road applications.

OPERATING PROFIT

RMB 1.15

BILLION

To address the burgeoning new energy markets, we are developing four new powertrain products with the expectation of developing a larger portfolio of new energy products. The next-generation hybrid powertrain will seamlessly integrate electric motors and internal combustion engines to enhance vehicle mileage and overall efficiency. The new energy market offers significant growth opportunities in the future. Trucks, buses, cranes, and other industrial equipment could benefit from these new powertrain products.

Our ongoing R&D programs to create off-road engine products of both high quality and high performance resulted in our YC4A diesel engine winning the "2019 China Agricultural Machinery Industry Product Gold Award". This award testifies to our ability to provide higher quality and performance to improve Chinese agricultural machinery. Agriculture is a key and strategic industry in the world's most populous nation.

Our engines also played an integral part in the national 70th anniversary celebration by propelling buses and powering giant electric screens. Many of the buses that carried veterans and their families were powered with our engines in the National Day parade in Beijing. It is another milestone for our Company's rich history of being selected to participate in major events throughout China and abroad.

As our operations continued to generate profits and strong cash flow, our cash and bank balances stood at RMB 6.4 billion (US$ 902.0 million) at the year end of 2019. We issued a cash dividend of US$0.85 per ordinary share in July 2019 to share our success with our shareholders and would distribute a cash dividend of US$0.85 per ordinary share on July 31, 2020 to shareholders of record as of the close of business on July 16, 2020. Ongoing annual dividends attest to the financial stability and commitment to our long-term shareholders during the current difficult market environment.

For the 2020 year, the outlook is clouded by the adverse economic impact of the coronavirus on the first quarter of 2020, and possibly beyond. However, China's industries and economy are slowly resuming at the time of this writing. We anticipate that the Chinese central government will implement a series of pro-growth policies to assist in the economic recovery.

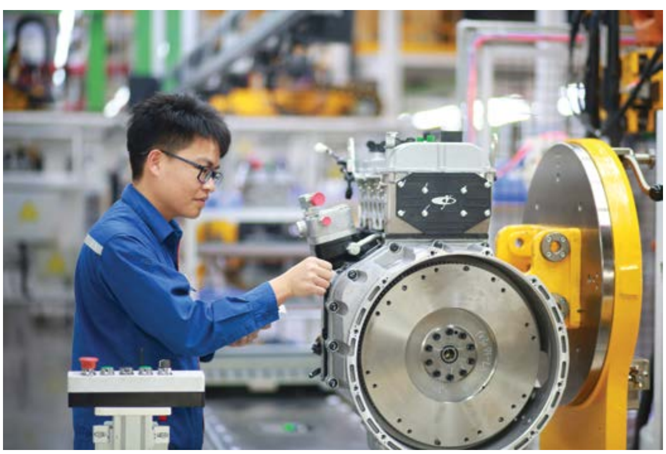
Weng Ming HOH
President
June 1, 2020

总裁
致词

尊敬的股东们：

2019年，在市场依然动荡的情况下，玉柴国际取得稳步发展，我们的收入较2018年上升10.8%至人民币180亿元（25亿美元）。尽管中国GDP的年增长率为过去29年以来最低，国民经济增长乏力，我们的收入仍有所增长。按6.1%的年度GDP增幅计，2019年的工业产出增长5.7%，较2018年的6.2%有所放缓。然而，尽管面临中美贸易战及逐步实施更新、更为严格的排放标准所带来的经济影响，我们依然步伐坚定。凭借我们强大的产品组合能够迎合终端市场的需求，我们成功保持在若干主要市场板块的市场份额，并扩大在其他市场板块的份额。我们广泛的商用车发动机组合，符合更严格的国六及Tier-4排放标准，成为2019年首批推出中国市场的发动机之一。

中国的汽车产业规模为全球最大，亦会对现代中国的经济及社会产生深远的影响。根据中国汽车工业协会（"中汽协"）提供的2019年中国汽车产业统计数据，2019年，道路用途商用车的年度单位销量（不包括汽油车及电动车）同比下降4.5%，主要受卡车板块下跌4.7%及客车销量下跌2.6%影响。



A worker on the assembly line is attaching QR code with ID information on the engines.

尽管市况严峻，我们2019年商用发动机单位销量为376,148台，而2018年为375,731台。我们卡车发动机的整体销量下跌1.2%，但跑赢整体卡车市场的大幅同比亏损。我们的重型卡车发动机销量较2018年取得双位数增长，部分归功于我们全新的国六天然气发动机大获成功。我们的客车发动机销量同比下跌10.1%，但2019年第四季度却以11.7%的增幅收官。受工业用发动机销量录得双位数增幅带动，非道路用途发动机的单位销量占总销量的比重日益增加，2019年的增幅为9.3%。

2019年，由于针对天然气发动机汽车的国六排放标准的第一阶段于2019年7月1日施行，商用车销售疲软。相比之下，我们全新的国六天然气卡车发动机在2019年第四季度表现不俗。在重型及中型客车发动机市场双位数增幅的带动下，我们2019年第四季度客车发动机市场的整体销量增长11.7%。

我们比以往任何时候都更注重对未来的投入。2019年，我们的研发支出（包括资本化支出）为人民币8.590亿元（1.212亿美元），占收入的4.8%，而2018年则为人民币6.435亿元，占收入的4.0%。研发投入主要集中在磨合我们的新发动机组合，以符合下一代国六及Tier-4排放标准。

排放标准的变化是一把双刃剑。新的国六和Tier-4排放标准是一个平台，与以前的标准相比，大大减少了排放，但需要对柴油和天然气发动机进行广泛的技术改造。这两项新排放标准将会大幅降低氮氧化物（NOx）及颗粒物（PM）的排放。这将有望改善空气质量及国民的健康水平，尤其是全国的众多城市居民。

国六柴油发动机的全国硬性实施时间为2021年7月1日。我们增长策略的一部分是在政府实施前开发出下一代发动机，由此，我们能在全国实施前供客户及潜在客户使用新的产品。我们亦能获得该等技术的重要经验，使我们能迅速改进。率先引入的新型先进发动机，可巩固我们作为技术排头兵的声誉及提高我们的市场地位。2018年，我们推出了一系列符合国六及Tier-4标准的产品型号。此外，YCK08型发动机是首个经认证符合更为严格的国六（b）排放标准的国产柴油发动机，该标准预计于2023年夏季中正式实行，被视为中国汽车史上最严苛的排放标准。我们的国六及Tier-4生产线已准备投产。

总裁
致词

2019年，我们全新符合国六排放标准的发动机亦迎来新的战略合作伙伴，包括陕西汽车控股集团（中国重型卡车生产商）及福田汽车集团，我们为其提供国六发动机及技术支持。随着全国实施期限的临近，我们的国六发动机获利能力不断提升。

为改进我们发动机的技术含量及成本竞争力，我们与埃贝赫合营的埃贝赫玉柴排放处理系统有限公司正在加大废气排放控制系统的生产，以满足中国商用车市场实施国六和Tier-4标准的要求。其先进的排放控制系统将会提高我们发动机在道路及非道路用途应用方面的排放性能。

为应对方兴未艾的新能源市场，我们正开发四种新动力总成产品，以期开发出更多新能源产品组合。下一代混合动力总成将使电动机及内燃机无缝整合，以提高车辆的行驶里程及整体效能。未来，新能源市场大有可为。卡车、客车、起重机及其他工业设备均可从该等新动力总成产品中受益。

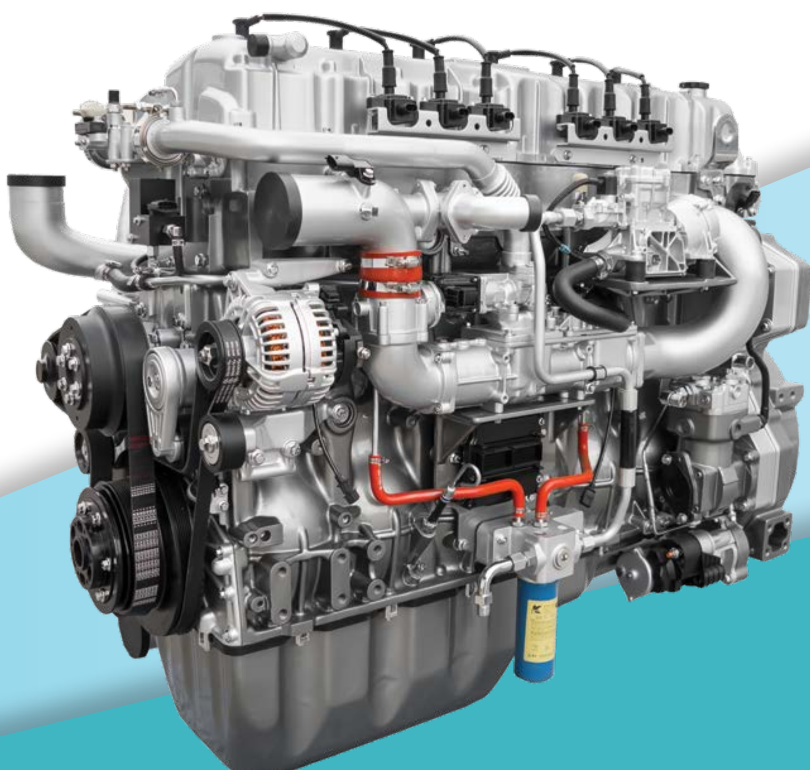
我们对高质量及高性能的非道路用途发动机产品的不断研发投入，使我们的YC4A柴油发动机荣获了"2019年中国农机工业产品金奖"。此殊荣证明了我们的高质量高性能产品对改善中国农业机械的实力。而农业是这个世界人口大国的核心战略性产业。

我们的发动机亦透过为客车提供动力及为巨型电子屏幕供电，在国家70周年庆典中发挥了不可或缺的作用。在北京国庆阅兵仪式中，许多载有退伍军人及其家属的汽车均由我们的发动机提供动力。此为公司参与国内外重要活动的丰富经历中的又一个里程碑。

由于我们的营运持续盈利及强劲现金流，截至2019年末，我们的现金和银行存款为人民币64亿元（9.020亿美元）。为与股东共享成果，我们在2019年7月派发了每股普通股0.85美元的现金分红，并将在2020年7月31日向截至2020年7月16日收市时登记在股东名册的股东分派每股普通股0.85美元的现金分红。在当前艰难的市场环境下，持续分红证明了财务状况的稳健及我们对长期股东作出的承诺。

冠状病毒对2020年第一季度乃至之后经济带来的不利影响，使2020年的前景黯淡。然而，在撰写本文时，中国的产业和经济正缓慢恢复中。我们预计中国政府将实施一系列刺激政策以助力经济复苏。

何永明
总裁
2020年6月1日



The YCK13N natural gas engine compliant with National VI emission standards is for use in heavy-duty trucks and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 324 PS with a maximum torque of 2100 N-m. The YCK13N engine was launched in 2019.

CORPORATE BACKGROUND

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

China Yuchai, through six wholly owned subsidiaries, owns a controlling 76.4% equity interest in its principal operating subsidiary, Guangxi Yuchai Machinery Company Limited ("Yuchai"). Located in Yulin City, Guangxi Zhuang Autonomous Region, Yuchai was founded in 1951 and has become one of the largest engine manufacturers for commercial vehicles in China. It engages in the research and development, manufacture, assembly and sale of a wide variety of light-, medium- and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, industrial equipment, marine, agriculture and power generation applications in China, including high horsepower engines for the marine and power generation markets. Yuchai's engines range from diesel to natural gas to hybrid engines. Through its regional sales offices and authorized customer service centers, Yuchai distributes its engines directly to OEMs and retailers, and provides maintenance and retrofitting services throughout China.

Yuchai's products range from 1.4L to 105.6L over 10 engine platforms with a power range from 80kW to 2,650kW. In its current portfolio, the number of engine series offerings is 30. With its strong R&D strength, Yuchai has obtained the ability to produce certain engines that compliant with China National VI and Tier-4 emission standards, which is mandatory to be implemented national wide over the next few years.

Yuchai 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. In 2019, Yuchai sold 376,148 engines and is recognized as a leading engine manufacturer and distributor in China.

China Yuchai also holds a 48.9% shareholding interest in HL Global Enterprises Limited ("HLGE") which is listed on the main board of the Singapore Exchange. HLGE currently operates the Copthorne Hotel Cameron Highlands, a hotel in Cameron Highlands, Malaysia.

公司背景

中国玉柴国际有限公司("玉柴国际")是一家成立于1993年4月29日的百慕大控股公司，在纽约证券交易所上市，代号为CYD，主要业务在中国。它是新加坡丰隆亚洲有限公司的子公司。

玉柴国际通过6家全资子公司，拥有其主要运营子公司广西玉柴机器股份有限公司("玉柴")76.4%的股权。玉柴位于中国广西壮族自治区玉林市，创建于1951年，现已成为中国最大的商用车发动机制造商之一，玉柴在中国从事研发、制造、组装和销售各种轻、中、重型的卡车、客车、乘用车、建筑设备、工程机械、船舶、农用和发电应用发动机，包括用于船舶和发电市场的大马力发动机。玉柴的产品类型有柴油机、气体机、混合动力系统。通过授权的地区销售点和客户服务中心，玉柴直接销售发动机给原始设备制造商和经销商，并在中国境内提供维修和改装服务。

玉柴产品涵盖超过10个发动机平台，容量从1.4升到105.6升、功率覆盖80千瓦到2,650千瓦，拥有30个产品系列。凭借强大的研发实力，玉柴已经具备了生产某些符合中国国六和Tier-4排放标准发动机的能力，这些标准在未来几年内必须在全国范围内实施。

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。2019年，玉柴销售发动机376,148台，被认为是中国领先的发动机制造商和销售商之一。

玉柴国际还持有新加坡交易所主板上市的丰隆环球有限公司("HLGE")48.9%的股权。HLGE目前经营着位于马来西亚金马伦高原国敦大酒店。

OUR SERVICE PRESENCE

Overseas Service Agents Appointed

228

Overseas Offices

13

Guangxi Yuchai Machinery Company Limited
广西玉柴机器股份有限公司总部

29 regional offices
29个玉柴办事处

2,319 authorized customer service stations
2,319家玉柴授权服务站

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 March 31, 2020, there were nine 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. Messrs. Yan Ping and 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]	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
HAN Yiyong [1]	Director	2010
HO Raymond Chi-Keung [2][3]	Director	2004
XIE Tao [1][3]	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

Mr. Tan Aik-Leang relinquished his appointment as Independent Director and the Audit Committee member of the Company with effect from May 11, 2019.

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

BOARD OF DIRECTORS

Mr. Hoh Weng Ming was appointed President and a Director of the Company on July 17, 2013 and November 11, 2011, respectively. He was the Chief Financial Officer of the Company from May 2008 to November 2011. He has also served as Director of Yuchai since December 2008. 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 MBA 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 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.), 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, and a fellow member of the Institute of Singapore Chartered 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 GY Group (a 17.2% shareholder in our company). 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.

Dr. 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.

BOARD OF DIRECTORS

Mr. Neo Poh Kiat is a Director of the Company and Yuchai. 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.

Dr. 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 and a PhD in Power Machinery and Engineering from Guangxi University and Tianjin University, respectively.

Yucha's cylinder head foundry molten iron auto-feeding system

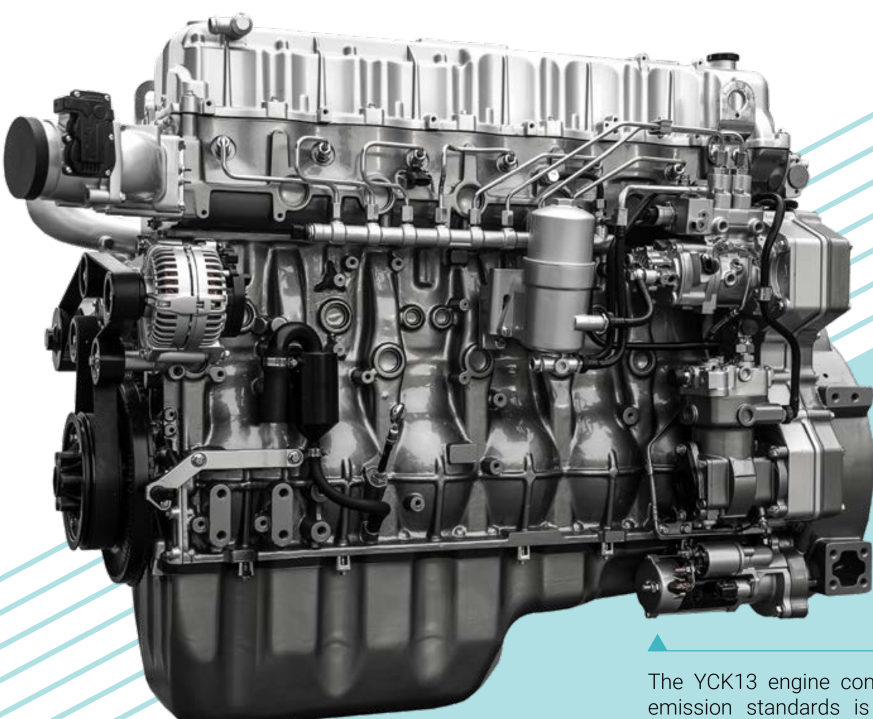
Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an Independent Director on April 30, 2013. Mr. Ho is a practicing arbitrator. He was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining 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 an Independent Director of the Company and Yuchai on April 2019. He is also an Independent Director of Yuchai as well as Gongniu Group Co., Ltd, a listed company in China. Mr Xie 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. Mr. Xie 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 in 2017. Dr. Phung has over 30 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, Shandong Asia Pacific SSYMB Pulp & Paper Co., Ltd, Thales GeoSolutions (Asia Pacific), Glaxo SmithKline Singapore Pte. Ltd. and Baker Oil Tools, a Baker Hughes company. 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.



The YCK13 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailer, and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 560 PS with a maximum torque of 2500 N-m. The YCK13 engine was launched in 2019.

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.

Yuchai's National VI Shop Floor

CORPORATE GOVERNANCE

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

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
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.	• Three of our nine directors, Messrs. Xie Tao, Neo Poh Kiat and Ho Raymond Chi-Keung are 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.
Audit Committee	
• Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.	• Our Audit Committee meets the requirements of Rule 10A-3 under this Exchange Act, except for the appointment of Mr. Tan Eng Kwee as a non-voting member of the Audit Committee with observer status, relying on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act. See also "Item 16D Exemptions From The Listing Standards For Audit Committees." *
• The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.	• Our Audit Committee consists of four members, three of whom met the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act and one of whom is a non-voting member with observer status relying on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act. See also "Item 16D Exemptions From The Listing Standards For Audit Committees." *
• 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.

* ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
Mr. Tan Eng Kwee is the CEO of our controlling shareholder, Hong Leong Asia. 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.

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
Audit Committee	
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.
The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.	• Our Audit Committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
• Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.	• The Board of Directors has identified Mr. Xie Tao as our Audit Committee Financial Expert.
• Each listed company must have an internal audit function.	• We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, 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.	

Standard for US Domestic Listed Companies	China Yuchai International Limited's Practice
Compensation Committee	
• These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.	• Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.
Nominating/Corporate Governance Committee	
• Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.	• We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.
• The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.	
Equity-Compensation Plans	
• Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions.	• 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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (the "Company") as of December 31, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 30, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for financial instruments in the year ended December 31, 2018 and its method of accounting for leases in the year ended December 31, 2019.

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 30, 2020

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, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes and our report dated April 30, 2020 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 30, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Revenue	7	16,197,819	16,263,248	18,016,085	2,542,813
Cost of sales	8.1	(12,841,768)	(13,171,227)	(14,910,244)	(2,104,451)
Gross profit		3,356,051	3,092,021	3,105,841	438,362
Other operating income	8.2(a)	532,117	205,143	347,161	48,999
Other operating expenses	8.2(b)	(22,719)	(12,463)	(8,675)	(1,224)
Research and development costs	8.1	(608,181)	(447,668)	(492,204)	(69,470)
Selling, general and administrative costs	8.1	(1,652,855)	(1,554,512)	(1,806,042)	(254,907)
Operating profit		1,604,413	1,282,521	1,146,081	161,760
Finance costs	8.3	(100,439)	(113,088)	(131,796)	(18,602)
Share of profit of associates and joint ventures, net of tax	5,6	10,054	11,634	19,034	2,686
Profit before tax		1,514,028	1,181,067	1,033,319	145,844
Income tax expense	9	(194,172)	(206,667)	(172,619)	(24,364)
Profit for the year		1,319,856	974,400	860,700	121,480
Attributable to:					
Equity holders of the parent		888,809	695,266	604,914	85,378
Non-controlling interests		431,047	279,134	255,786	36,102
		1,319,856	974,400	860,700	121,480
Earnings per share (dollar per share)					
- Basic	10	21.80	17.02	14.81	2.09
- Diluted	10	21.80	17.02	14.81	2.09

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Profit for the year	1,319,856	974,400	860,700	121,480
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods, net of tax:				
Foreign currency translation	(72,271)	49,245	8,467	1,195
Realization of foreign currency translation reserves upon disposal of foreign operation	(4,252)	—	—	—
Net fair value change on debt instruments at fair value through other comprehensive income	—	32,646	3,050	431
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	(76,523)	81,891	11,517	1,626
Total comprehensive income for the year, net of tax	1,243,333	1,056,291	872,217	123,106
Attributable to:				
Equity holders of the parent	827,109	763,935	610,369	86,148
Non-controlling interests	416,224	292,356	261,848	36,958
	1,243,333	1,056,291	872,217	123,106

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	11	3,756,542	4,210,444	594,267
Investment property	12	6,765	6,552	925
Prepaid operating leases	13	354,546	—	—
Intangible assets	14	418,637	954,144	134,669
Investment in associates and joint ventures	5,6	224,942	275,946	38,947
Deferred tax assets	9	361,207	422,960	59,697
Long-term bank deposits	18	70,000	50,000	7,057
Right-of-use assets	19	—	415,384	58,628
Capitalized contract cost	7.2	44,434	136,457	19,260
		5,237,073	6,471,887	913,450
Current assets				
Inventories	15	2,517,864	2,824,137	398,602
Trade and other receivables	17	7,785,287	8,190,293	1,155,988
Prepaid operating leases	13	12,546	—	—
Other current assets	16	46,672	26,956	3,805
Cash and cash equivalents	18	5,559,890	5,753,268	812,024
Long-term bank deposits, current	18	70,000	70,000	9,880
Short-term bank deposits	18	356,926	286,543	40,443
Restricted cash	18	71,706	231,107	32,619
		16,420,891	17,382,304	2,453,361
Total assets		21,657,964	23,854,191	3,366,811

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	20	2,081,138	2,081,138	293,734
Statutory reserves	22	302,404	304,307	42,950
Capital reserves	22	30,704	30,704	4,334
Retained earnings		6,092,549	6,456,802	911,321
Other components of equity	22	(110,946)	(105,422)	(14,879)
Equity attributable to equity holders of the parent		8,395,849	8,767,529	1,237,460
Non-controlling interests		2,751,705	2,805,856	396,022
Total equity		11,147,554	11,573,385	1,633,482
Non-current liabilities				
Loans and borrowings	28(b)	15,078	—	—
Other liabilities	28(a)	34	—	—
Lease liabilities	27	—	31,374	4,428
Contract liabilities	26	53,703	53,813	7,596
Deferred tax liabilities	9	136,728	153,486	21,663
Deferred grants	29	585,526	656,776	92,698
Other payables	24	160,091	176,302	24,883
		951,160	1,071,751	151,268
Current liabilities				
Trade and other payables	24	7,031,043	8,468,091	1,195,198
Loans and borrowings	28(b)	2,001,014	2,055,046	290,052
Other liabilities	28(a)	14	999	141
Lease liabilities	27	—	28,633	4,041
Contract liabilities	26	286,786	382,809	54,030
Provision for taxation		73,480	55,446	7,826
Provision	25	166,913	218,031	30,773
		9,559,250	11,209,055	1,582,061
Total liabilities		10,510,410	12,280,806	1,733,329
Total equity and liabilities		21,657,964	23,854,191	3,366,811

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 RMB'000	Preference shares RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Reserve of asset classified as held for sale RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2017	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	–	–	–	–	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
Contributions by and distributions to owners												
Shares issued during the year	22,062	–	–	–	–	–	–	–	–	22,062	–	22,062
Dividends declared and paid (US$0.90 per share)	–	–	–	–	(248,844)	–	–	–	–	(248,844)	–	(248,844)
Cost of share-based payments	–	–	–	–	–	–	1,592	–	–	1,592	–	1,592
Exercise of share option	–	–	–	–	–	–	(2,673)	–	–	(2,673)	–	(2,673)
Transaction with non-controlling interests												
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(98,941)	(98,941)
Changes in ownership interests in subsidiaries												
Acquisition of non-controlling interests	–	–	–	(250)	–	–	–	–	(381)	(631)	(7,648)	(8,279)
Others												
Transfer to statutory reserves	–	–	1,882	–	(1,882)	–	–	–	–	–	–	–
At December 31, 2017	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 RMB'000	Preference shares RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2018	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 IFRS 9	–	–	–	–	–	–	–	(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	–	68,669	13,222	81,891
Total comprehensive income for the year	–	–	–	–	695,266	43,724	–	24,945	–	763,935	292,356	1,056,291
Contributions by and distributions to owners												
Dividends declared and paid (US$2.21 per share) (Note 21)	–	–	–	–	(597,459)	–	–	–	–	(597,459)	–	(597,459)
Transaction with non-controlling interests												
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(135,905)	(135,905)
Others												
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

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 RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2019	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
Profit for the year	–	–	–	604,914	–	–	–	–	604,914	255,786	860,700
Other comprehensive income for the year, net of tax	–	–	–	–	3,124	–	2,331	–	5,455	6,062	11,517
Total comprehensive income for the year	–	–	–	604,914	3,124	–	2,331	–	610,369	261,848	872,217
Contributions by and distributions to owners											
Dividends declared and paid (US$0.85 per share) (Note 21)	–	–	–	(238,758)	–	–	–	–	(238,758)	–	(238,758)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	–	–	–	–	–	–	–	–	–	(207,514)	(207,514)
Changes in ownership interests in subsidiary											
Acquisition of non-controlling interests	–	–	–	–	–	–	–	69	69	(183)	(114)
Other											
Transfer to statutory reserves	–	1,903	–	(1,903)	–	–	–	–	–	–	–
At December 31, 2019	2,081,138	304,307	30,704	6,456,802	(36,091)	19,758	(77,617)	(11,472)	8,767,529	2,805,856	11,573,385
US$'000	293,734	42,950	4,334	911,321	(5,094)	2,789	(10,955)	(1,619)	1,237,460	396,022	1,633,482

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Operating activities				
Profit before tax	1,514,028	1,181,067	1,033,319	145,844
Adjustments:				
Amortization of intangible asset	—	—	1,012	143
Amortization of prepaid operating leases	12,366	12,724	—	—
Bad debt written off/(recovered)	10	(108)	—	—
Cost of share-based payments	1,592	—	—	—
Depreciation of:				
- investment property	248	884	380	54
- property, plant and equipment	431,567	420,277	422,859	59,683
- right-of-use assets	—	—	40,958	5,781
Dividend income from quoted equity securities	(2,532)	(1,992)	(959)	(135)
Exchange (gain)/loss	(8,319)	4,235	(4,679)	(660)
Fair value (gain)/loss on foreign exchange forward contract	—	(4,529)	5,529	780
Fair value (gain)/loss on quoted equity securities	(12,768)	3,433	(1,118)	(158)
Finance costs	100,439	113,088	131,796	18,602
(Gain)/loss on disposal of:				
- associate	(199)	—	—	—
- joint venture	(107,976)	—	—	—
- property, plant and equipment	(11,668)	(8,835)	645	91
- quoted equity securities	—	—	(11,528)	(1,627)
- right-of-use assets	—	—	(9,237)	(1,304)
- subsidiaries	(216,115)	—	—	—
Government grants	(28,035)	(32,237)	(122,371)	(17,272)
Interest income	(105,421)	(147,244)	(177,261)	(25,019)
Impairment losses on:				
- development property	—	—	3,039	429
- intangible asset	40,000	—	—	—
- property, plant and equipment	20,845	30,173	3,950	558
(Reversal of impairment losses)/impairment losses on trade receivables	(10,854)	(11,052)	32,340	4,565
Property, plant and equipment written off	5,682	1,265	4,137	584
Provision for onerous contract	—	—	2,316	327
(Reversal of write-down)/ impairment losses of inventories, net	(19,901)	(8,468)	17,022	2,403
Share of profit of associates and joint ventures, net of tax	(10,054)	(11,634)	(19,034)	(2,686)
Write-back of trade and other payables	(29)	—	(2,087)	(295)
Profit before tax after adjustments	1,592,906	1,541,047	1,351,028	190,688

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Changes in working capital				
(Increase)/decrease in inventories	(897,437)	47,533	(314,904)	(44,446)
Decrease/(increase) in trade and other receivables and capitalized contract cost	81,121	(502,069)	(514,163)	(72,570)
Increase/(decrease) in trade and other payables and contract liabilities	846,175	(229,457)	1,294,214	182,667
Decrease/(increase) in development properties	377	4,205	(71)	(10)
Cash flows from operating activities	1,623,142	861,259	1,816,104	256,329
Income taxes paid	(202,975)	(190,658)	(233,088)	(32,898)
Net cash flows from operating activities	1,420,167	670,601	1,583,016	223,431
Investing activities				
Payment for trademarks usage fee	—	—	(169,811)	(23,967)
Additional investment in subsidiaries	(8,279)	—	(114)	(16)
Additional investment in associates and joint ventures	(75,000)	—	(41,160)	(5,809)
Development costs	—	(180,626)	(345,128)	(48,712)
Dividend received from:				
- joint ventures	754	801	821	116
- quoted equity securities	2,532	1,992	959	135
Interest received	108,481	143,768	173,745	24,523
Proceeds from disposal of:				
- associate	1,832	—	—	—
- joint venture	182,679	—	—	—
- property, plant and equipment	15,640	6,669	1,178	166
- quoted equity securities	—	—	16,429	2,319
- right-of-use assets	—	—	11,008	1,554
- subsidiaries, net of cash disposed	341,602	—	—	—
Proceeds from government grants	50,095	286,198	191,491	27,027
Purchase of property, plant and equipment	(289,472)	(407,747)	(749,087)	(105,727)
Tax and relevant expenses in relation to disposal of subsidiary[i]	—	—	(38,887)	(5,489)
(Withdrawal)/placement of fixed deposits with banks, net	(254,294)	68,953	138,079	19,489
Net cash flows from/(used in) investing activities	76,570	(79,992)	(810,477)	(114,391)

Note:

(i) This relates to retention money deposited in a joint signatory account with the buyer of LKNII for payment of tax payable for the disposal of LKNII in 2018, which have been settled in 2019.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Financing activities				
Dividends paid to:				
- equity holders of the parent	(235,947)	(597,459)	(238,758)	(33,699)
- non-controlling interests	(97,009)	(132,558)	(203,167)	(28,675)
Interest paid and discounting on bills receivable	(107,246)	(108,039)	(139,118)	(19,635)
Payment of finance lease liabilities	(38)	(33)	—	—
Payment of principal portion of lease liabilities	—	—	(48,365)	(6,826)
Proceeds from:				
- borrowings	1,814,618	2,000,320	2,040,752	288,034
- issue of shares	6,617	—	—	—
Repayment of borrowings	(1,100,133)	(1,611,756)	(2,000,773)	(282,392)
Net cash flows from/(used in) financing activities	280,862	(449,525)	(589,429)	(83,193)
Net increase in cash and cash equivalents	1,777,599	141,084	183,110	25,847
Cash and cash equivalents at January 1	3,653,914	5,390,324	5,559,890	784,729
Effect of exchange rate changes on balances in foreign currencies	(41,189)	28,482	10,268	1,448
Cash and cash equivalents at December 31	5,390,324	5,559,890	5,753,268	812,024

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, 2019 were authorized for issue in accordance with a resolution of the directors on April 30, 2020.

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 ("GY Group"), a state-owned enterprise, owns 22.09% of the issued share capital of Yuchai.

As at December 31, 2019, Yuchai has nine (2018: nine) direct and 33 (2018: 32) indirectly owned subsidiaries, four (2018: four) joint ventures and one (2018: 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 29 (2018: 28) 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 subsidiaries (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 associate 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's shareholding has changed through various transactions, the Group's equity interest in HLGE was 49.4% as at December 31, 2011.

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 decreased 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, the 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, the Group's interest in HLGE was 50.2%, net of the ordinary shares held by the Trustee under the Trust.

As of December 31, 2018 and 2019, 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 policies 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 the United States Dollar ("US Dollar") is solely for the convenience of the reader. Translation of amounts from Renminbi to US Dollar has been made at the rate of RMB 7.0851 = US$1.00, the rate quoted by the People's Bank of China at the close of business on March 31, 2020 and all values are rounded to the nearest thousand ("US$'000"), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2019. 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.

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.

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

2.3 Summary of significant accounting policies (cont'd)

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

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

Any contingent consideration to be transferred by the acquirer will be recognized 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 recognized 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 recognized in profit or loss.

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

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.

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.

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

2.3 Summary of significant accounting policies (cont'd)

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

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

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

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

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

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

(c) Current versus non-current classification

The Group presents assets and liabilities in the 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.

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

2.3 Summary of significant accounting policies (cont'd)

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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, bills receivable and a foreign exchange forward contract, at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

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.

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

For 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.

Fair value related disclosures for financial instruments that are measured at fair value are summarized in the following notes:

• Quoted equity securities	Note 35
• Bills receivable	Note 35
• Foreign exchange forward contract	Note 35

(e) Foreign currency translation

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

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

Transactions and balances

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

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

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

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

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 liabilities relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

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

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates during the reporting period. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to 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 from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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

Sale of engines

Revenue from sale of engines is recognized at the point in time when control of the engine is transferred to the customer, generally on delivery of the engines, or, in some cases, when the engines are installed by the customers.

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). In determining the transaction price for the sale of engines, the Group considers the effects of variable consideration and the existence of significant financing components.

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probably that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of engines provide customers with volume rebates. The volume rebates give rise to variable consideration.

Volume rebates

The Group provides certain customers with retrospective volume 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 in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized in "Trade and other payables" for the expected future rebates (i.e., the amount not included in the transaction price).

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 (cont'd)

(ii) Significant financing component

The Group receives advance payments from customers for the sale of engines. The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

Warranty obligations

The Group typically provides warranties for general repairs of defects as part of the sale of engines. These assurance-type warranties are accounted for as warranty provisions. Refer to the accounting policy on warranty provisions in Section (s) *Provisions*.

Certain contracts provide a customer with maintenance service, i.e. a distinct service to the customer in addition to the assurance that the product complies with agreed upon specification. These service-type warranties are bundled together with the sale of engines. Contracts for bundled sale of engines and a service-type warranty comprise two performance obligations because the promises to transfer the engines and to provide the service-type warranty are capable of being distinct. Using a combination of expected cost-plus margin and residual approaches, the transaction price is allocated to the service-type warranty and engines with the former performance obligation recognizing a corresponding contract liability. Revenue for service-type warranties is recognized at the point in time when the service-type warranty is provided.

Consignment arrangements

In some consignment arrangements, although the good has been delivered to the customer, the Group retains control of the good and satisfies its performance obligation only upon the utilization of the good by the customer.

Sale of completed development properties

Revenue is recognized when control of 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 recognized 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 recognized when the customer obtains control of the asset.

Rendering of services

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

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)

Contract balances

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Section (m) *Financial instruments – Initial recognition and subsequent measurement*.

Contract liabilities

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The liability 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 (and the corresponding change in the transaction price) at the end of each reporting period.

Costs to fulfil a contract

Costs to fulfil a contract are capitalized if the costs relate directly to the contract, generate or enhance resources used in satisfying the contract and are expected to be recovered. Other contract costs are expensed as incurred.

Capitalized contract costs are subsequently recognized in profit or loss as the Group recognizes the related revenue. An impairment loss is recognized in profit or loss to the extent that the carrying amount of the capitalized contract costs exceeds the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the contract costs relates less the costs that relate directly to providing the goods and that have not been recognized as expenses.

(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.

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax

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

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

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

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

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

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

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

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

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.

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)

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

Sales tax

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.

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

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

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

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

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

(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. Subsequent to initial recognition, investment properties are 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 either when they have been disposed of (i.e., at the date recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. Under cost model, the transfer does not change the carrying amount of the property transferred.

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

2.3 Summary of significant accounting policies (cont'd)

(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

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.

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

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

Goodwill

Accounting policy for goodwill is separately discussed in Note 2.3(a).

A summary of the policies applied to the Group's intangible assets is as follows:

	Trademarks	Technology know-how	Development costs
Useful lives	Indefinite	10 years	*
Amortization method used	No amortization	Amortized on a straight-line basis over the period of the technology know-how	*
Internally generated or acquired	Acquired	Internally generated	Internally generated

* Development costs relate to on-going development projects that have not been completed and are not available for use.

(m) Financial instruments – Initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or which the Group has applied the practical expedient, the Group initially 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. Trade receivables that do not contain a significant financing component or which the Group has applied the practical expedient are measured at the transaction price as disclosed in Section (f) *Revenue from contracts with customers*.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest ("SPPI")" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Initial recognition and measurement (cont'd)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade and other receivables (excluding bills receivable).

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes bills receivable.

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under *IAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have equity instruments measured under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

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

- The rights to receive cash flows from the asset has expired; or

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Derecognition (cont'd)

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

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

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Debt instruments at fair value through OCI represented by bills receivable (Note 17)
- Trade receivables (Note 17)

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 recognized 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 recognized for credit losses expected over the remaining life of the exposure irrespective of timing of the default (a "life time ECL").

For trade receivable, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes 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 debt instruments at fair value through OCI, the Group applies the low credit risk simplifications. At every reporting date, the Group evaluate whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making the evaluation, the Group reassesses the external credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Impairment (cont'd)

The Group's debt instruments at fair value through OCI comprise solely of bills receivable. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are more than 360 days from the invoice date. However, in certain cases the Group may also consider a financial asset 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.

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, lease liabilities, other liabilities and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost

<u>Financial liabilities at fair value through profit or loss</u>

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

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement (cont'd)

Financial liabilities at amortized cost

This is the category most relevant to the Group. After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

This category generally applies to loans and borrowings, lease liabilities, other liabilities and payables. For more information refer to Note 24 and 28.

Derecognition

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

Offsetting of financial instruments

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

(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.

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

2.3 Summary of significant accounting policies (cont'd)

(o) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Property, plant and equipment (Note 11)
- Intangible assets (Note 14)
- Investment property (Note 12)
- Right-of-use assets (Note 19)
- Investment in associates & joint ventures (Note 5 & 6)

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 CGU's 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of ten years. A long-term growth rate is calculated and applied to project future cash flows after the tenth year.

Impairment losses 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.

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

2.3 Summary of significant accounting policies (cont'd)

(o) Impairment of non-financial assets (cont'd)

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.

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

(p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(q) Leases

Accounting policy beginning January 1, 2019

The Group assess at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, expect for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets, as follows:

• Leasehold land	Shorter of 3 years to 50 years
• Building and office space	1 to 6 years
• Office furniture, fittings and equipment	5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subjected to impairment. Refer to the accounting policies in Section (o) *Impairment of non-financial assets*.

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

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Accounting policy beginning January 1, 2019 (cont'd)

Group as a lessee (cont'd)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substances fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying assets.

(iii) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of land and building (i.e., those leases that have a lease term of 12 months of less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense 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. Rental income arising is accounted for on straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. 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.

Accounting policy prior to January 1, 2019

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.

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

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Accounting policy prior to January 1, 2019 (cont'd)

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.

(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.

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

2.3 Summary of significant accounting policies (cont'd)

(s) Provisions (cont'd)

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 materializes first. 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 materializes first. 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.

Onerous contract

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

(t) Pensions and other post-employment benefits

Defined contribution plans

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 to defined contribution pension schemes are recognized as an expense in the period in which the related services are performed.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

(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, further details of which are given in Note 23.

That cost is recognized in "Staff costs" (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.

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

2.3 Summary of significant accounting policies (cont'd)

(u) Share-based payments (cont'd)

Equity-settled transactions (cont'd)

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.

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.

The costs of development properties recognized in profit or loss on disposal are determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

(w) Derivative financial instruments

Initial recognition and subsequent measurement

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

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

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 ***Leases*** for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an material impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 *Leases*

IFRS 16 supersedes 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*. The standard set out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

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 16 *Leases (cont'd)*

The effect of adoption IFRS 16 as at January 1, 2019 (increase/(decrease)) is, as follows:

	RMB'000	US$'000
Assets		
Prepaid operating leases	(367,092)	(51,812)
Property, plant and equipment	(39)	(6)
Right-of-use assets	446,608	63,035
Trade and other receivables - Prepayment	(1,770)	(250)
Total assets	77,707	10,967
Current Liabilities		
Lease liabilities	42,457	5,992
Other liabilities	(14)	(2)
Trade and other payables - Accruals	(19,097)	(2,695)
Total current liabilities	23,346	3,295
Non-current Liabilities		
Lease liabilities	54,395	7,677
Other liabilities	(34)	(5)
Total non-current liabilities	54,361	7,672

The Group has lease contracts for various items of land, motor vehicle, office space and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.3 (q) ***Leases*** for the accounting policy prior to January 1, 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.3 (q) ***Leases*** for the accounting policy beginning January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(i) Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases. The requirements of IFRS 16 were applied to these leases from January 1, 2019.

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 16 *Leases (cont'd)*

(ii) Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In all leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of RMB 446.6 million (US$63.0 million) were recognized and presented separately in the statement of financial position. This includes the lease assets recognized previously under finance leases of RMB 0.04 million (US$0.01 million) that were reclassified from property, plant and equipment, prepaid operating leases of RMB 367.1 million (US$51.8 million) were reclassified from prepaid operating leases and prepayment for rental of RMB 1.8 million (US$0.3 million) were reclassified from trade and other receivables.
- Additional lease liabilities of RMB 96.9 million (US$13.7 million) were recognized.
- Prepaid operating leases of RMB 367.1 million (US$51.8 million), trade and other receivables - prepayment RMB 1.8 million (US$0.3 million) and trade and other payables - accrual of RMB 19.1 million (US$2.7 million) related to previous operating leases were derecognized.
- Other liabilities of RMB 0.05 million (US$0.01 million) related to previous finance leases were derecognized.

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 16 *Leases (cont'd)*

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

	RMB'000	US$'000
Assets		
Operating lease commitments as at December 31, 2018	101,700	14,354
Less:		
Commitments relating to short-term leases	(2,140)	(302)
Revised rental	(13,878)	(1,959)
Adjusted operating lease commitments	85,682	12,093
Weighted average incremental borrowing rate as at January 1, 2019	4.34%	4.34%
Discounted operating lease commitments as at January 1, 2019	79,477	11,218
Less:		
Prepayment adjusted to lease liabilities	(1,770)	(250)
Add:		
Commitments relating to leases previously classified as finance leases	48	7
Accrual adjusted to lease liabilities	19,097	2,695
Lease liabilities as at January 1, 2019 (Note 19)	96,852	13,670

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

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

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

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

The Interpretation did not have material impact on the consolidated financial statements of the Group.

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)

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 an 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. These amendments had no impact on the consolidated financial statements of the Group.

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 the 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. An entity is also required to determine the 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 had no impact on the consolidated financial statements of the Group as it did not have defined benefit plans.

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

The amendments clarify that an entity applies IFRS 9 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, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 ***Investments in Associates and Joint Ventures***.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

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 had no impact on the consolidated financial statements of the Group as there is no transaction where the Group obtains control of a business that is joint operation.

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)

Annual improvements 2015-2017 cycle (cont'd)

IFRS 11 *Joint Arrangements*

An entity 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 had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 *Income Taxes*

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 it originally recognized those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When the 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.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 *Borrowing Costs*

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.

The entity applies the 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.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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

2.5 Standards issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

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.

Amendments to IFRS 3 *Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management (Note 31)
- Financial risk management objectives and policies (Note 33)
- Sensitivity analyses disclosures (Note 13, 14 and 33)

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 judgments 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 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 derecognition 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 17.

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, 2018 and 2019 are RMB 361.2 million and RMB 423.0 million (US$59.7 million) respectively, and primarily relate to unutilized capital allowances and investment allowances, as well as other unrecognized temporary differences relating to asset impairment and deferred grants. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 162.0 million (US$22.9 million) for year ended December 31, 2019 (2018: RMB 160.0 million).

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

3.1 Judgments (cont'd)

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 ten 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, development costs and trademarks 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 14.

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, 2018 and 2019 were RMB 93.6 million and RMB 108.7 million (US$15.3 million) respectively.

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 31.12.2018 %	Group's effective equity interest 31.12.2019 %
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.

	31.12.2017	31.12.2018	31.12.2019
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Accumulated balances of material NCI				
Yuchai		2,556,644	2,603,227	367,423
Profit allocated to material NCI				
Yuchai	270,452	252,394	254,284	35,890
Dividends paid to material NCI				
Yuchai	98,941	135,905	207,514	29,289

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:

	31.12.2017 Yuchai RMB'000
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

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

	31.12.2018 **Yuchai** **RMB'000**
Summarized statement of financial position	
Current assets	15,498,171
Non-current assets, excluding goodwill	4,925,347
Goodwill	212,636
Current liabilities	(9,489,499)
Non-current liabilities	(828,993)
Net assets	10,317,662
Total equity	10,317,662
Attributable to NCI	2,556,644
Summarized statement of comprehensive income	
Revenue	16,210,467
Profit for the year	972,010
Total comprehensive income for the year	867,438
Attributable to NCI	252,394
Summarized statement of cash flows	
Operating	701,716
Investing	(331,416)
Financing	(66,975)
Net increase in cash and cash equivalents	303,325

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

	31.12.2019 Yuchai RMB'000	31.12.2019 Yuchai US$'000
Summarized statement of financial position		
Current assets	16,444,627	2,321,015
Non-current assets, excluding goodwill	6,160,217	869,461
Goodwill	212,636	30,012
Current liabilities	(11,162,938)	(1,575,551)
Non-current liabilities	(964,084)	(136,072)
Net assets	10,690,458	1,508,865
Total equity	10,690,458	1,508,865
Attributable to NCI	2,603,227	367,423
Summarized statement of comprehensive income		
Revenue	17,980,304	2,537,763
Profit for the year	825,807	116,555
Total comprehensive income for the year	828,861	116,987
Attributable to NCI	254,284	35,890
Summarized statement of cash flows		
Operating	1,632,557	230,421
Investing	(858,904)	(121,227)
Financing	(656,576)	(92,670)
Net increase in cash and cash equivalents	117,077	16,524

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:

At the end of the reporting period, cash and cash equivalents of RMB 5,112.8 million (US$721.6 million) (2018: RMB 5,015.2 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.

4. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Acquisition of ownership in subsidiaries, without change in 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.

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	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

Acquisition of ownership in subsidiaries, without change in control in 2019

In February 2019, Yuchai acquired 7.5% of equity interest in YC Europe Co., Ltd. ("YC Europe") from non-controlling interest for a cash consideration of RMB 0.1 million (less than US$0.1 million). As a result, Yuchai's shareholding in YC Europe increased from 67.5% to 75.0%.

5. INVESTMENT IN ASSOCIATES

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Share of loss of associates, net of tax	28	59	181	26

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Carrying amount of investment	2,130	1,955	276

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2018 %	31.12.2019 %
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

6. INVESTMENT IN JOINT VENTURES

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Share of profit/(loss) of joint ventures, net of tax:				
Y & C Engine Co., Ltd	17,755	17,612	28,484	4,020
MTU Yuchai Power Co., Ltd.	(8,487)	(6,882)	594	84
Eberspaecher Yuchai Exhaust Technology Co., Ltd	—	—	(9,366)	(1,322)
Other joint ventures.	814	963	(497)	(70)
	10,082	11,693	19,215	2,712

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Carrying amount of investments:			
Y & C Engine Co., Ltd	155,681	176,082	24,852
MTU Yuchai Power Co., Ltd	59,632	59,931	8,459
Eberspaecher Yuchai Exhaust Technology Co., Ltd[1]	—	31,794	4,487
Other joint ventures	7,499	6,184	873
	222,812	273,991	38,671

Note:

[i] Eberspaecher Yuchai was incorporated on December 5, 2018. In March 2019 and December 2019, the Group injected RMB 17.6 million (US$2.5 million) and RMB 23.5 million (US$3.3 million) respectively into Eberspaecher Yuchai as payment of its investment.

The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2018 %	Group's effective equity interest 31.12.2019 %
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")	Application development, production, sales and service on engine exhaust control systems	People's Republic of China	37.4	37.4

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.

6. INVESTMENT IN JOINT VENTURES (CONT'D)

In 2018 and 2019, the Group has performed an impairment evaluation of its investments in joint ventures and no impairment was required.

	31.12.2017		
	Y & C RMB'000	MTU Yuchai Power 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/(loss)	25,192	(8,487)	
Unrealized profit on transactions with joint venture	(7,437)	—	
Group's share of profit/(loss) of significant joint ventures	17,755	(8,487)	9,268
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive income 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

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2018		
	Y & C RMB'000	MTU Yuchai Power RMB'000	Total RMB'000
Non-current assets	755,671	72,342	828,013
Current assets			
- Cash and bank balances	113,061	21,707	134,768
- Others	646,751	209,022	855,773
Total assets	1,515,483	303,071	1,818,554
Non-current liabilities	(46,603)	—	(46,603)
Current liabilities			
- Loans and borrowings	(51,534)	—	(51,534)
- Others	(942,306)	(174,242)	(1,116,548)
Total liabilities	(1,040,443)	(174,242)	(1,214,685)
Equity	475,040	128,829	603,869
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
Carrying amount of other joint ventures			7,499
Carrying amount of the investment in joint ventures			222,812

6. INVESTMENT IN JOINT VENTURES (CONT'D)

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

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	31.12.2019				
	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000	Total US$'000
Non-current assets	774,046	78,362	24,001	876,409	123,697
Current assets					
- Cash and bank balances	164,942	9,265	54,567	228,774	32,289
- Others	1,060,805	221,482	7,970	1,290,257	182,109
Total assets	1,999,793	309,109	86,538	2,395,440	338,095
Non-current liabilities	(84,154)	—	—	(84,154)	(11,878)
Current liabilities					
- Others	(1,396,116)	(179,680)	(21,651)	(1,597,447)	(225,466)
Total liabilities	(1,480,270)	(179,680)	(21,651)	(1,681,601)	(237,344)
Equity	519,523	129,429	64,887	713,839	100,751
Proportion of the Group's ownership	45%	50%	49%		
Group's share of net assets	233,786	64,714	31,794		
Unrealized profit on transactions with joint venture	(57,704)	(4,783)	—		
Carrying amount of significant joint ventures	176,082	59,931	31,794	267,807	37,798
Carrying amount of other joint ventures				6,184	873
Carrying amount of the investment in joint ventures				273,991	38,671

6. INVESTMENT IN JOINT VENTURES (CONT'D)

	Y & C RMB'000	MTU Yuchai Power RMB'000	31.12.2019 Eberspaecher Yuchai RMB'000	Total RMB'000	Total US$'000
Revenue	2,404,244	178,796	3,509	2,586,549	365,069
Depreciation and amortization	(26,099)	(6,379)	(25)	(32,503)	(4,588)
Interest expense	(29,606)	(5,017)	—	(34,623)	(4,887)
Profit/(loss) for the year, representing total comprehensive income for the year	44,484	600	(19,114)	25,970	3,665
Proportion of the Group's ownership	45%	50 %	49%		
Group's share of profit/(loss)	20,018	300	(9,366)		
Unrealized profit on transactions with joint venture	8,466	294	—		
Group's share of profit/(loss) of significant joint ventures	28,484	594	(9,366)	19,712	2,782
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				(497)	(70)
Group's share of profit for the year, representing the Group's share of total comprehensive income for the year				19,215	2,712

Note:

As of December 31, 2019, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 81.0 million (US$11.4 million) (2018: RMB 38.0 million).

As of December 31, 2019, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB 45.0 million (US$6.3 million) (2018: RMB 98.0 million).

As of December 31, 2019, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 11.4 million (US$1.6 million) (2018: RMB 1.7 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 44.8 million (US$6.3 million) (2018: RMB 27.3 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, 2019, the Group's share of restricted cash of RMB Nil (US$ Nil) (2018: RMB 0.7 million) which was used as collateral by the banks for letter of credit facilities granted.

6. INVESTMENT IN JOINT VENTURES (CONT'D)

Significant restrictions (cont'd)

As at December 31, 2019, the Group's share of restricted cash of RMB 60.8 million (US$8.6 million) (2018: RMB 33.8 million) which was used as collateral by the banks for the issuance of bills to suppliers.

As at December 31, 2019, the Group's share of bills receivables of RMB 50.8 million (US$7.2 million) (2018: RMB Nil) 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:

		31.12.2017	
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 contracts 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 contracts 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 contracts with customers	16,140,622	57,197	16,197,819

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

7.1 Disaggregated revenue information (cont'd)

		31.12.2018	
Segments	**Yuchai RMB'000**	**HLGE RMB'000**	**Total RMB'000**
Type of goods or services			
Heavy-duty engines	4,934,435	—	4,934,435
Medium-duty engines	5,537,164	—	5,537,164
Light-duty engines	2,481,554	—	2,481,554
Other products and services[(i)]	3,213,237	—	3,213,237
Revenue from hospitality operations	44,077	52,781	96,858
Total revenue from contracts with customers	16,210,467	52,781	16,263,248
Geographical markets			
People's Republic of China	16,119,896	—	16,119,896
Other countries	90,571	52,781	143,352
Total revenue from contracts with customers	16,210,467	52,781	16,263,248
Timing of revenue recognition			
At a point in time	16,166,390	—	16,166,390
Over time	44,077	52,781	96,858
Total revenue from contracts with customers	16,210,467	52,781	16,263,248

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

7.1 Disaggregated revenue information (cont'd)

	31.12.2019			
Segments	Yuchai RMB'000	HLGE RMB'000	Total RMB'000	Total US$'000
Type of goods or services				
Heavy-duty engines	6,189,934	—	6,189,934	873,655
Medium-duty engines	5,583,982	—	5,583,982	788,130
Light-duty engines	2,429,248	—	2,429,248	342,867
Other products and services(i)	3,732,436	—	3,732,436	526,801
Revenue from hospitality operations	44,704	35,781	80,485	11,360
Total revenue from contracts with customers	17,980,304	35,781	18,016,085	2,542,813
Geographical markets				
People's Republic of China	17,913,615	—	17,913,615	2,528,350
Other countries	66,689	35,781	102,470	14,463
Total revenue from contracts with customers	17,980,304	35,781	18,016,085	2,542,813
Timing of revenue recognition				
At a point in time	17,935,600	—	17,935,600	2,531,453
Over time	44,704	35,781	80,485	11,360
Total revenue from contracts with customers	17,980,304	35,781	18,016,085	2,542,813

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

7.2 Contract balances

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Trade receivables (Note 17)	408,000	738,929	104,293
Capitalized contract cost	44,434	136,457	19,260
Contract liabilities (Note 26)	340,489	436,622	61,626

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

The contract liabilities comprise short-term advance received from customers and unfulfilled maintenance service. The advance received from customers is recognized 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.

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

7.2 Contract balances (cont'd)

The significant increase in contract liabilities in 2019 was mainly due to increase in advance payment from customers as at December 31, 2019 for future product deliveries.

(a) Set out below is the amount of revenue recognized from:

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Amounts include in contract liabilities at the beginning of the year	55,604	72,321	10,207

(b) Capitalized contract costs

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Capitalized contract costs relating to service fee charges on development of technology know-how			
At January 1	—	44,434	6,271
Addition	44,434	93,549	13,204
Utilization	—	(1,526)	(215)
At December 31	44,434	136,457	19,260

7.3 Performance obligations

The transaction price allocated to the remaining unsatisfied performance obligations as at 31 December are, as follows:

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Within one year	138,025	127,326	17,971
More than one year	53,703	53,813	7,595

The remaining performance obligations expected to be recognized in more than one year relate to the unfulfilled maintenance service that is to be satisfied within 3 years.

8.1 Depreciation, amortization, shipping and handling expenses

(a) Depreciation and amortization expenses

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Amortization of intangible assets	—	—	1,012	143
Amortization of prepaid operating lease	12,366	12,724	—	—
Depreciation of investment property	248	884	380	54
Depreciation of property, plant and equipment	431,567	420,277	422,859	59,683
Depreciation of right-of-use assets	—	—	40,958	5,781
	444,181	433,885	465,209	65,661

Depreciation and amortization expenses are included in the following captions:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Cost of sales	307,102	312,769	315,445	44,523
Research and development expenses	48,291	26,751	16,470	2,325
Selling, general and administrative expenses	88,788	94,365	133,294	18,813
	444,181	433,885	465,209	65,661

(b) Shipping and handling expenses

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Selling, general and administrative expenses	208,197	211,971	221,255	31,228

8.2 (a) Other operating income

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Interest income	105,421	147,244	177,261	25,019
Dividend income from quoted equity securities	2,532	1,992	959	135
Gain on disposal of:				
- associate	199	—	—	—
- joint venture[(i)]	107,976	—	—	—
- property, plant and equipment	11,668	8,835	—	—
- quoted equity securities	—	—	11,528	1,627
- right-of-use assets	—	—	9,237	1,304
- subsidiaries (Note 4)	216,115	—	—	—
Government grants	34,337	32,237	122,371	17,272
Fair value gain on quoted equity securities	12,768	—	1,118	158
Fair value gain on foreign exchange forward contract	—	4,529	—	—
Write-back of trade and other payables	29	—	10	1
Realised foreign exchange gain, net	22,624	5,306	3,604	509
Unrealised foreign exchange gain, net	8,319	(4,235)	4,679	660
Others	10,129	9,235	16,394	2,314
	532,117	205,143	347,161	48,999

Note:

(i) On October 19, 2017, the Group completed the disposal of its joint venture investment in Copthorne Qingdao and recognized gain on disposal in the Group's profit or loss for the year ended December 31, 2017.

8.2 (b) Other operating expenses

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Fair value loss on quoted equity securities	—	3,433	—	—
Fair value loss on foreign exchange forward contract	—	—	5,529	780
Loss on disposal of property, plant and equipment	—	—	645	91
Others	22,719	9,030	2,501	353
	22,719	12,463	8,675	1,224

8.3 Finance costs

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Bank term loans	53,888	71,513	76,721	10,828
Bills discounting	42,179	36,826	47,212	6,664
Bank charges	4,367	4,749	4,945	698
Interest on finance lease	5	—	—	—
Interest on lease liabilities (Note 19)	—	—	2,918	412
	100,439	113,088	131,796	18,602

8.4 Staff costs

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Wages and salaries	1,158,320	1,176,465	1,122,712	158,461
Contribution to defined contribution plans	258,190	296,073	324,623	45,818
Executive bonuses	59,908	57,674	59,791	8,439
Staff welfare	76,392	76,689	82,692	11,671
Staff severance cost	107,732	28,018	15,454	2,181
Cost of share-based payment	1,592	—	—	—
Others	1,870	8,441	6,012	849
	1,664,004	1,643,360	1,611,284	227,419

Staff costs are included in the following captions:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Cost of sales	850,580	822,570	808,763	114,150
Research and development expenses	197,991	213,826	243,049	34,304
Selling, general and administrative expenses	615,433	606,964	559,472	78,965
	1,664,004	1,643,360	1,611,284	227,419

9. INCOME TAX EXPENSE

The major components of income tax expense for the years ended December 31, 2017, 2018 and 2019 are as follows:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Current income tax				
- Current year	197,264	209,448	193,878	27,364
- Over provision in respect of prior years	(2,867)	(729)	(6,985)	(986)
Deferred tax				
- Movement in temporary differences	(225)	(2,052)	(14,274)	(2,014)
Consolidated income tax expense reported in the statement of profit or loss	194,172	206,667	172,619	24,364

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, 2019, 2018 and 2017 for the following reasons:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Accounting profit before tax	1,514,028	1,181,067	1,033,319	145,844
Computed tax expense at 15% (2018: 15%, 2017: 15%)	227,104	177,160	154,998	21,877
Adjustments resulting from:				
Non-deductible expenses	21,982	5,146	3,982	562
Tax-exempt income	(58,324)	(3,634)	(6,171)	(871)
Utilization of deferred tax benefits previously not recognized	(16,687)	(5,518)	(5,076)	(716)
Deferred tax benefits not recognized	8,084	2,183	6,613	933
Tax credits for research and development expense	(34,428)	(22,407)	(31,863)	(4,497)
Tax rate differential	21,061	24,437	26,223	3,701
Over provision in respect of previous years current tax	(2,867)	(729)	(6,985)	(986)
Withholding tax expense	29,447	30,029	30,898	4,361
Others	(1,200)	—	—	—
Total	194,172	206,667	172,619	24,364

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			
	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Deferred tax liabilities							
Accelerated tax depreciation	(27,554)	(44,920)	(6,340)	(4,601)	(12,432)	(17,366)	(2,451)
Interest receivable	(2,252)	(1,644)	(232)	679	(1,478)	608	86
PRC withholding tax on dividend income[(i)]	(106,922)	(106,922)	(15,091)	(29,031)	(29,842)	(30,721)	(4,336)
	(136,728)	(153,486)	(21,663)	(32,953)	(43,752)	(47,479)	(6,701)
Deferred tax assets							
Impairment of property, plant and equipment	15,943	6,648	938	9,443	3,624	(9,295)	(1,312)
Write-down of inventories	16,060	18,403	2,598	(3,716)	(1,433)	2,343	331
Allowance for doubtful account receivables	5,177	10,077	1,422	(1,964)	(2,199)	4,900	692
Accruals	204,554	250,662	35,379	18,778	(186)	46,108	6,508
Deferred income	95,499	107,731	15,205	6,743	43,820	12,232	1,726
Others	23,974	29,439	4,155	3,894	2,178	5,465	770
	361,207	422,960	59,697	33,178	45,804	61,753	8,715
				225	2,052	14,274	2,014

Note:

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
At January 1	(100,572)	(106,922)	(15,091)
Provision made to consolidated statement of profit or loss	(29,842)	(30,721)	(4,336)
Utilization	23,492	30,721	4,336
December 31	(106,922)	(106,922)	(15,091)

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, 2019, the deferred tax liability for withholding tax payable was RMB 106.9 million (US$15.1 million) (2018: RMB 106.9 million). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 253.5 million (US$35.8 million) (2018: RMB 249.2 million).

9. INCOME TAX EXPENSE (CONT'D)

Deferred tax (cont'd)

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Deferred tax assets	361,207	422,960	59,697
Deferred tax liabilities	(136,728)	(153,486)	(21,663)
	224,479	269,474	38,034

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Unutilized tax losses	396,232	414,226	55,925
Unutilized capital allowances and investment allowances	107,588	107,613	15,185
Other unrecognized temporary differences relating to asset impairment and deferred grants	222,868	215,296	31,456
	726,688	737,135	102,566

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. The unutilized tax losses for PRC subsidiaries and Malaysia subsidiaries expire within the next 5 years and 7 years, respectively. These losses 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:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Profit attributable to ordinary equity holders of the parent	888,809	695,266	604,914	85,378
Weighted average number of ordinary shares	40,764,569	40,858,290	40,858,290	40,858,290

10. EARNINGS PER SHARE (CONT'D)

Diluted earnings per share

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

	31.12.2017	31.12.2018	31.12.2019
Weighted average number of shares issued, used in the calculation of basic earnings per share	40,764,569	40,858,290	40,858,290
Diluted effect of share options	—	—	—
Weighted average number of ordinary shares adjusted for effect of dilution	40,764,569	40,858,290	40,858,290

In 2019, 470,000 (2018: 470,000; 2017: 470,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land 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, 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
Effects of adopting IFRS 16 (i)	—	—	—	—	(69)	—	(69)
At January 1, 2019	14,430	2,342,545	470,188	5,238,702	193,019	117,683	8,376,567
Additions	—	14,851	884,145	4,260	6,763	8,261	918,280
Disposals	—	(762)	—	(15,468)	(902)	(12,035)	(29,167)
Transfers	—	45,412	(317,294)	268,896	2,986	—	—
Write-off	—	(27,911)	—	(211,589)	(7,126)	(1,442)	(248,068)
Translation difference	406	1,955	(4)	221	414	34	3,026
At December 31, 2019	14,836	2,376,090	1,037,035	5,285,022	195,154	112,501	9,020,638

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

	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
Accumulated depreciation and impairment							
At 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
Effects of adopting IFRS 16 (i)	—	—	—	—	(27)	—	(27)
At January 1, 2019	499	768,320	—	3,645,984	133,524	71,740	4,620,067
Charge for the year	—	105,818	—	311,402	25,324	10,675	453,219
Disposals	—	(284)	—	(11,467)	(547)	(11,597)	(23,895)
Write-off	—	(25,376)	—	(210,253)	(6,883)	(1,419)	(243,931)
Impairment loss	—	—	—	3,950	—	—	3,950
Translation difference	14	325	—	134	292	19	784
At December 31, 2019	513	848,803	—	3,739,750	151,710	69,418	4,810,194
Net book value							
At December 31, 2018	13,931	1,574,225	470,188	1,592,718	59,537	45,943	3,756,542
At December 31, 2019	14,323	1,527,287	1,037,035	1,545,272	43,444	43,083	4,210,444
US$'000	2,021	215,563	146,368	218,102	6,132	6,081	594,267

* In 2019, RMB 21.6 million (US$3.0 million) (2018: RMB 15.3 million) and RMB 8.8 million (US$1.2 million) (2018: RMB 5.4 million) were capitalized as intangible assets and capitalized contract cost, respectively.

An impairment loss of RMB 4.0 million (US$0.6 million) (2018: RMB 30.2 million; 2017: RMB 20.8 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 2017, 2018 and 2019 was due to assets that were not in use.

As of December 31, 2018 and 2019, there was no property, plant and equipment pledged to secure bank facilities.

Note:

(i) ***Finance leases***

The carrying amount of property, plant and equipment held under finance leases at December 31, 2018 was less than RMB 0.1 million. Upon the adoption of IFRS 16 on January 1, 2019, the Group has reclassified the carrying amount of this asset to "Right-of-use assets".

12. INVESTMENT PROPERTY

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Cost			
At January 1	32,944	33,972	4,795
Translation difference	1,028	968	137
At December 31	33,972	34,940	4,932
Accumulated depreciation			
At January 1	25,510	27,207	3,840
Charge for the year	884	380	54
Translation difference	813	801	113
At December 31	27,207	28,388	4,007
Net carrying amount	6,765	6,552	925
Fair value	10,886	11,419	1,612
Consolidated statements of profit or loss:			
Rental income from an investment property	437	375	53
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	(314)	(294)	(41)

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.

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
2019	Market comparison and cost method	Comparable price: - RMB 166 to RMB 440 (US$23 to US$62) per square foot	The estimated fair value increases with higher comparable price
2018	Market comparison and cost method	Comparable price: - RMB 156 to RMB 428 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.

	31.12.2018 RMB'000
Current	12,546
Non-current	354,546
Total	367,092

	31.12.2018 RMB'000
Cost	
At January 1 and December 31	529,577
Accumulated amortization	
At January 1	149,761
Charge for the year	12,724
At December 31	162,485
Net carrying amount	367,092

With adoption of IFRS 16 on January 1, 2019, the Group has reclassified the carrying amount of prepaid operating lease as at December 31, 2018 to "Right-of-use assets". See Note 2.4 for further information about the change in accounting policy for leases.

14. INTANGIBLE ASSETS

	Technology Know-how RMB'000	Development costs RMB'000	Goodwill RMB'000	Trademarks RMB'000	Total RMB'000
Cost					
At January 1, 2018	—	136,822	218,311	—	355,133
Addition – internally generated	—	195,879	—	—	195,879
Reclassification	136,822	(136,822)	—	—	—
At December 31, 2018 and January 1, 2019	136,822	195,879	218,311	—	551,012
Addition	—	366,708	—	169,811	536,519
At December 31, 2019	136,822	562,587	218,311	169,811	1,087,531
Accumulated amortization and impairment					
At January 1, 2018	—	126,700	5,675	—	132,375
Reclassification	126,700	(126,700)	—	—	—
At December 31, 2018 and January 1, 2019	126,700	—	5,675	—	132,375
Amortization	1,012	—	—	—	1,012
At December 31, 2019	127,712	—	5,675	—	133,387
Net carrying amount					
At December 31, 2018	10,122	195,879	212,636	—	418,637
At December 31, 2019	9,110	562,587	212,636	169,811	954,144
US$'000	1,286	79,404	30,012	23,967	134,669

Goodwill

Goodwill represents the excess of purchase consideration 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.

14. INTANGIBLE ASSETS (CONT'D)

Goodwill (cont'd)

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Yuchai	212,636	212,636	30,012

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 a ten-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 13.32% (2018: 13.96%). 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 and future business outlook of Yuchai unit.

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

Growth rate estimate – Growth rate is based on management's estimate with reference to general available indication of long-term gross domestic product growth rate of China. The long-term rates used to extrapolate the budget for Yuchai are 5.7% and 6.3% for 2019 and 2018 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 17.57% (2018: 1.00%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 14.79% (2018: 14.28%) in the Yuchai unit would result in impairment.

Growth rate assumptions – Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 2.40% (2018: 5.77%) in the long-term growth rate in Yuchai unit would result in impairment.

14. INTANGIBLE ASSETS (CONT'D)

Goodwill (cont'd)

Sensitivity to changes in assumptions (cont'd)

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.

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 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 reclassified as the Group's technology know-how.

In late 2018, the Group has commenced the production of 4Y20 engine. In 2019 the production volume has gradually ramped up to meet market demand. As such, management believe that there is no indicator for further impairment. In addition, this model of engines is in the process of penetrating the market, management is currently accessing the future market demand and concludes that there is no reversal of impairment to be recognized in 2019.

Development costs

During 2018 and 2019, the Group has capitalized development costs of RMB 195.9 million and RMB 366.7 million (US$51.8 million), respectively, for new engines that comply with National VI and Tier 4 emission standards. As of December 31, 2019, the total capitalized development costs is RMB 562.6 million (US$79.4 million). 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 after mid-2020, and the Tier 4 emission standard for off-road vehicles is expected to be implemented within the next 2 years.

In 2018 and 2019, 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. In 2018, 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. In 2019, the Group used 10 years forecast which is based on the financial budgets approved by the senior management covering 6 years' period from 2020 to 2025, and a further 4 years of forecast with no terminal value.

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, growth rate and estimation of future business outlook. The revenue is estimated to grow significantly from 2020 to 2022 due to enforcement of implementation of new emission standard. From 2023 to 2025, the growth is estimated to slow down which is in the range of 10% to 15%. It is expected to remain constant at growth rate of 0% from 2026 to 2029 after the expected commercial deployment of technology. In 2018 the revenue growth rate was 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 13.32% (2018: 13.96%).

14. INTANGIBLE ASSETS (CONT'D)

Development costs (cont'd)

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 4.53% (2018: 3.30%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 14.13% (2018: 26.30%) 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.

Trademarks

In 2019, Yuchai entered into a trademark license agreement with GY Group under which Yuchai was granted the exclusive and perpetual use of the trademarks listed in the trademark license agreement for a one-time usage fee of RMB 169.8 million (US$24.0 million).

Management has assessed and concluded that the right granted by the trademark license, according to the terms and conditions of the trademark license agreement, is indefinite.

In 2019, the Group performed an annual impairment review by taking Yuchai as a cash-generating unit. Using the same cash flow projection and assumptions for goodwill impairment test disclosed above, management concluded that no impairment charge is to be recognized in 2019.

15. INVENTORIES

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Raw materials	1,243,955	1,500,034	211,717
Work in progress	30,038	35,688	5,037
Finished goods	1,243,871	1,288,415	181,848
Total inventories at the lower of cost and net realizable value	2,517,864	2,824,137	398,602

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Inventories recognized as an expense in cost of sales	11,021,960	11,471,988	13,167,181	1,858,433
Inclusive of the following charge/(credit):				
— Inventories written down	17,492	25,194	31,810	4,490
— Reversal of write-down of inventories	(37,393)	(33,662)	(14,788)	(2,087)

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

16. OTHER ASSETS

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Current			
Development properties(i)	20,267	17,721	2,501
Quoted equity securities(ii)	21,876	9,235	1,304
Derivative not designated as hedges – foreign exchange forward contract(iii)	4,529	—	—
	46,672	26,956	3,805

Note:

(i) An impairment loss of RMB 3.0 million (US$0.4 million) on development properties (2018: RMB Nil) was charged to the consolidated statement of profit or loss under "Cost of sales".

(ii) The quoted equity securities are listed on the Singapore Exchange. In 2019, the Group has disposed some of the quoted equity securities for consideration of RMB 16.4 million (US$2.3 million) and gain on disposal of RMB 11.5 million (US$1.6 million) was recognized in consolidated statement of profit or loss under "other operating income".

(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 profit or loss.

17. TRADE AND OTHER RECEIVABLES

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Trade receivables, gross	438,586	794,678	112,161
Less: Allowance for expected credit losses	(30,586)	(57,611)	(8,131)
Net trade receivables	408,000	737,067	104,030
Bills receivable (i)	6,981,106	7,005,234	988,728
Total (Note 7.2, Note 36)	7,389,106	7,742,301	1,092,758
Amounts receivable:			
— associates and joint ventures (trade)	174	609	86
— associates and joint ventures (non-trade)	56,405	11,185	1,579
— related parties (trade)	32,702	73,243	10,338
— related parties (non-trade)	2,156	2,092	295
Staff advances	5,513	7,133	1,007
Interest receivables	8,220	12,224	1,725
Bills receivable in transit	8,850	8,700	1,228
Refundable deposits	3,029	2,131	301
Others	23,456	49,218	6,946
Less: Impairment losses – other receivables (ii)	—	(5,243)	(740)
Other receivables carried at amortized cost (Note 36)	140,505	161,292	22,765
Tax recoverable	140,316	223,652	31,566
Prepayments	115,360	63,048	8,899
Net other receivables	396,181	447,992	63,230
Total trade and other receivables	7,785,287	8,190,293	1,155,988

Note:

(i) As of December 31, 2019, bills receivable include bills received from joint venture and related parties amounted to RMB Nil (US$ Nil) (2018: RMB 18.1 million) and RMB 1,050.7 million (US$148.3 million) (2018: RMB 17.0 million) respectively.
As of December 31, 2019, there was no bills receivable pledged to secure bank facilities. As of December 31, 2018, bills receivable of RMB 558.6 million were pledged to secure bank facilities.

(ii) This comprised of impairment loss on bills receivable in transit of RMB 5.0 million (US$0.7 million) as of December 31, 2019 (2018: RMB Nil). This impairment loss was charged to the consolidated statement of profit or loss under "selling, general and administrative expenses".

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

As of December 31, 2018, the non-trade receivable due from joint ventures comprised of a loan of RMB 50.0 million that was unsecured and bore interest at 4.35% per annum. The amount was fully repaid in 2019. Other than that, non-trade balance from associates, joint ventures and other related parties are unsecured, interest-free, and repayable on demand.

17. TRADE AND OTHER RECEIVABLES (CONT'D)

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
At January 1	43,775	30,586	4,316
(Credit)/debit to consolidated statement of profit or loss (under "selling, general and administrative expenses")	(11,052)	32,340	4,565
Written off	(2,137)	(62)	(9)
Translation difference	—	(10)	(1)
At December 31 (Note 33)	30,586	62,854	8,871

As of December 31, 2018 and 2019, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled RMB 1,272.4 million and RMB 2,268.4 million (US$320.2 million) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2018 and 2019, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 1,627.5 million and RMB 1,120.3 million (US$158.1 million) respectively.

As of December 31, 2018 and 2019, gross trade receivables due from a major customer group, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 54.1 million and RMB 136.4 million (US$19.2 million), respectively. See Note 33 for further discussion of customer concentration risk.

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

18. CASH AND CASH EQUIVALENTS

LONG-TERM BANK DEPOSITS

SHORT-TERM BANK DEPOSITS

RESTRICTED CASH

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Non-current			
Long-term bank deposits (i)	70,000	50,000	7,057
Current			
Cash and cash equivalents	5,559,890	5,753,268	812,024
Long-term bank deposits (i)	70,000	70,000	9,880
Short-term bank deposits (ii)	356,926	286,543	40,443
Restricted cash	71,706	231,107	32,619
	6,058,522	6,340,918	894,966
Cash and bank balances	6,128,522	6,390,918	902,023

Note:

(i) In 2019, YMMC has placed new two-year time deposits of RMB 50.0 million (US$7.1 million) (2018: RMB 70.0 million) at annual interest rate range from 3.99% to 4.13% (2018: 2.94% to 3.15%) with certain banks. These long-term deposits are not considered to be cash equivalents.

As at December 31, 2019, the two-year time deposits placed in 2018 has remaining maturity period of less than 12 months. Accordingly, this balance has been classified to current assets in 2019.

(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, 2019 for the Group ranged from 1.78% to 3.65% (2018: 1.40% to 3.90%). 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, 2019 for the Group ranged from 1.50% to 3.15% (2018: 1.30% to 3.28%).

As of December 31, 2019, the Group's restricted cash of RMB 231.1 million (US$32.6 million) was used as collateral by the banks for the issuance of bills to suppliers. As at December 31, 2018, the Group's restricted cash comprised of RMB 31.6 million which was used as collateral by the banks for the issuance of bills to suppliers and RMB 40.1 million related to retention money deposited in a joint signatory account with the buyer of LKNII for payment of tax payable for the disposal of LKNII, the tax was settled in 2019. The Group's share of joint ventures' restricted cash is disclosed in Note 6.

As of December 31, 2018 and 2019, the Group had RMB 492.8 million and RMB 295.0 million (US$41.6 million) respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2017, 2018 and 2019 were RMB 0.2 million, RMB 0.2 million and RMB 0.2 million (less than US$0.1 million) respectively.

18. CASH AND CASH EQUIVALENTS (CONT'D)

LONG-TERM BANK DEPOSITS (CONT'D)

SHORT-TERM BANK DEPOSITS (CONT'D)

RESTRICTED CASH (CONT'D)

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Cash at banks and on hand	5,110,520	5,205,605	734,726
Short-term bank deposits[(i)]	449,370	547,663	77,298
Cash and cash equivalents	5,559,890	5,753,268	812,024

Note:

(i) This relates to other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

19. LEASES

Group as a lessee

The Group has lease contracts for land, motor vehicles, office space and staff accommodations used in its operations. These leases generally with lease term of between 1 and 6 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of office space and staff accommodations with lease terms of 12 months or less. The Group has applied the "short-term leases" recognition exemptions for these leases.

19. LEASES (CONT'D)

Group as a lessee (cont'd)

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year.

	Leasehold land RMB'000	Building and office space RMB'000	Office furniture, fittings and equipment RMB'000	Total RMB'000	Total US$'000
At January 1, 2019	—	—	—	—	—
Effect of adopting of IFRS 16[i]	369,925	76,644	39	446,608	63,035
At January 1, 2019 (Restated)	369,925	76,644	39	446,608	63,035
Addition	—	11,473	—	11,473	1,619
Depreciation expenses	(14,347)	(26,597)	(14)	(40,958)	(5,781)
Disposal	(1,771)	—	—	(1,771)	(250)
Translation difference	—	36	(4)	32	5
At December, 31, 2019	353,807	61,556	21	415,384	58,628

Note:

(i) Upon the adoption of IFRS 16 on January 1, 2019, the Group has reclassified the carrying amount of prepaid operating lease and office furniture, fittings and equipment held under finance leases at December 31, 2018 to right-of-use assets.

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2019 RMB'000	2019 US$'000
At January 1	—	—
Effect of adopting of IFRS 16 (Note 2.4)	96,852	13,670
At January 1 (Restated)	96,852	13,670
Additions	11,473	1,619
Accretion of interest (Note 8.3)	2,918	412
Payments	(51,283)	(7,238)
Translation difference	47	6
At December 31	60,007	8,469
Current (Note 27)	28,633	4,041
Non-current (Note 27)	31,374	4,428
Total	60,007	8,469

19. LEASES (CONT'D)

Group as a lessee (cont'd)

The maturity analysis of lease liabilities is disclosed in Note 27.

The following are the amounts recognized in profit of loss:

	2019 RMB'000	2019 US$'000
Depreciation charge for right-of-use assets	40,958	5,781
Interest expenses on lease liabilities (Note 8.3)	2,918	412
Expenses relating to short-term leases (included in selling, general and administrative costs and research and development cost)	14,341	2,024
Total amount recognized in profit or loss	58,217	8,217

The Group had total cash outflows for leases of RMB 65.6 million (US$9.3 million) in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of RMB 11.5 million (US$1.6 million) in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 31.

Group as a lessor

The Group has entered into operating leases on some of its assets, including surplus office and warehouse. Theses leases have terms between 1 to 12 years. Rental income recognized by the Group during the year is RMB 11.9 million (US$ 1.7 million) (2018: RMB 11.0 million).

Future minimum rental receivables under non-cancellable operating leases as at 31 December are as follows:

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Within 1 year			
- related parties	1,248	1,787	252
- joint venture	2,308	2,691	380
- third parties	1,391	892	126
After 1 year but within 5 years			
- related parties	1,030	660	93
- joint venture	9,087	10,526	1,486
- third parties	1,463	1,504	212
After than 5 years			
- related parties	455	—	—
- joint venture	9,272	5,643	796
- third parties	—	889	125
	26,254	24,592	3,470

20. ISSUED CAPITAL

	31.12.2018 thousands	31.12.2019 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, 2018, December 31, 2018 and December 31, 2019	40,858,290	2,081,138
US$'000		293,734

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Special share issued and fully paid			
One special share issued and fully paid at US$0.10 per share	*	*	*

* Less than RMB 1 (US$1)

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 Hong Leong Asia Ltd. ("HLA"), Hong Leong (China) Limited ("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.

21. DIVIDENDS DECLARED AND PAID

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2019: US$0.85 per share (2018: US$0.73 per share)	197,353	238,758	33,699
Special dividend paid in 2019: US$ Nil per share (2018: US$1.48 per share)	400,106	—	—
	597,459	238,758	33,699
Dividend paid in cash	597,459	238,758	33,699

22. RESERVES

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Statutory reserve			
Statutory general reserve (i)			
At January 1	275,320	276,698	39,053
Transfer from retained earnings	1,378	1,903	269
At December 31	276,698	278,601	39,322
General surplus reserve (ii)			
At January 1 and December 31	25,706	25,706	3,628
Total	302,404	304,307	42,950
Capital reserves (iii)			
At January 1 and December 31	30,704	30,704	4,334

Note:

(i) 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.

(ii) 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.

(iii) Capital reserves pertain to a capital transaction in 2015.

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Other components of equity			
Foreign currency translation reserve (i)	(39,215)	(36,091)	(5,094)
Performance shares reserve (ii)	19,758	19,758	2,789
Premium paid for acquisition of non-controlling interests	(11,541)	(11,472)	(1,619)
Fair value reserve of financial assets at FVOCI (iii)	(79,948)	(77,617)	(10,955)
Total	(110,946)	(105,422)	(14,879)

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 of financial assets at FVOCI relates to the subsequent measurement of the Group's bills receivable at fair value through OCI.

23. 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:

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Expense arising from equity-settled share-based payment transactions	1,592	–	–	–
Total expense arising from share-based payment transactions	1,592	–	–	–

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 31.12.2018	WAEP 31.12.2018	Number of share options 31.12.2019	WAEP 31.12.2019
Outstanding at January 1 and December 31	470,000	US$ 21.11	470,000	US$ 21.11
Exercisable at December 31	470,000	US$ 21.11	470,000	US$ 21.11

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

23. SHARE-BASED PAYMENT (CONT'D)

Fair value of share options and assumptions

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

The exercise price for options outstanding as at December 31, 2019 was US$21.11 dollar (2018: US$21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 4.6 (2018: 5.6) 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.

24. TRADE AND OTHER PAYABLES

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Current			
Trade payables	2,495,482	2,953,479	416,858
Bills payables (i)	2,065,147	2,764,013	390,116
Other payables	329,632	543,970	76,777
Accrued expenses	168,235	203,133	28,671
Accrued staff costs	666,641	653,854	92,286
Refund liabilities	761,521	757,655	106,936
Dividend payable	43,133	47,480	6,701
Amount due to:			
— associates and joint ventures (trade)	262,131	258,964	36,551
— associates and joint ventures (non-trade)	66	81	11
— related parties (trade)	145,747	221,413	31,250
— related parties (non-trade)	32,034	4,016	567
Financial liabilities carried at amortized cost (Note 36)	6,969,769	8,408,058	1,186,724
Other tax payable	38,823	39,698	5,603
Trade and other payables with liquidity risk (Note 33)	7,008,592	8,447,756	1,192,327
Deferred grants (Note 29)	22,082	19,952	2,816
Advance from customers	369	383	55
Total trade and other payables (current)	7,031,043	8,468,091	1,195,198

(i) As of December 31, 2019, the bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 125.0 million (US$17.6 million) (2018: RMB 131.8 million), RMB 10.1 million (US$1.4 million) (2018: RMB 4.2 million) and RMB 232.6 million (US$32.8 million) (2018: RMB 62.8 million) respectively.

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Non-current			
Other payables (i) (Note 33, Note 36)	160,091	176,302	24,883

(i) This relates to accrual for bonus that is not expected to be settled within next 12 months.

Terms and conditions of the above financial liabilities:

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

25. PROVISION

	Provision for warranty RMB'000	Provision for onerous contract RMB'000	Total RMB'000	Total US$'000
At January 1, 2018	191,814	—	191,814	27,072
Provision made	224,582	—	224,582	31,698
Provision utilized	(249,483)	—	(249,483)	(35,212)
At December 31, 2018 and January 1, 2019	166,913	—	166,913	23,558
Provision made	421,905	2,316	424,221	59,875
Provision utilized	(373,103)	—	(373,103)	(52,660)
At December 31, 2019	215,715	2,316	218,031	30,773

26. CONTRACT LIABILITIES

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Unfulfilled maintenance services	191,728	181,139	25,566
Advance from customer	148,761	255,483	36,060
Total	340,489	436,622	61,626
Current	286,786	382,809	54,030
Non-current	53,703	53,813	7,596
Total contract liabilities (Note 7.2)	340,489	436,622	61,626

27. LEASE LIABILITIES

	Effective interest rate %	Maturity	31.12.2019 RMB'000	31.12.2019 US$'000
Current (Note 19)	1.25% - 6.20%	2020	28,633	4,041
Non- current (Note 19)	1.25% - 6.20%	2021-2024	31,374	4,428

28. OTHER FINANCIAL LIABILITIES

(a) Other liabilities

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Derivative not designated as hedges – foreign exchange forward contract	—	999	141
Finance lease liabilities	48	—	—
	48	999	141

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Current	14	999	141
Non-current	34	—	—
	48	999	141

Foreign exchange forward contract

On December 11, 2019, Yuchai entered into a non-deliverable forward foreign exchange contract ("NDF") with China Construction Bank to purchase US$20.0 million at the forward exchange rate (RMB/US$) of 7.0901 on December 8, 2020. The Group accounted for this NDF at fair value through profit or loss.

Finance lease liabilities

As at December 31, 2018, the group leased office equipment under finance leases expiring within three years. The lease was recorded as finance lease liabilities under "Other liabilities" until December 31, 2018, and was reclassified to "Lease liabilities" on January 1, 2019 upon adoption of IFRS 16. See Note 2.4 for further information about the change in accounting policy for leases.

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	31.12.2018 Minimum lease payments RMB'000	31.12.2018 Present value of payments RMB'000
Not later than one year	14	14
Later than one year but not later than five years	34	34
Total minimum lease payments	48	48
Less: Amount representing finance charges	*	*
Present value of minimum lease payments	48	48

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

28. OTHER FINANCIAL LIABILITIES (CONT'D)

(b) Loans and borrowings

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

	Effective interest rate %	Maturity	31.12.2019 RMB'000	31.12.2019 US$'000
Current				
Renminbi denominated loans	3.70 –4.13	2020	1,900,000	268,168
US dollar denominated loans	2.52	2020	139,524	19,693
Singapore Dollar denominated loans(iii)	2.84	2020	15,522	2,191
			2,055,046	290,052

Note:
(i) All loans balances as stated above do not have a callable feature.
(ii) The loan was secured by the Group's bills receivable of RMB 524.1 million and repaid in September 2019.
(iii) The loans comprise:

Issuer bank	Facility limit	Usage RMB'000
December 31, 2018		
MUFG Bank Ltd	S$ 30 million	15,078
December 31, 2019		
MUFG Bank Ltd	S$ 30 million	15,522
	US$'000	2,191

28. OTHER FINANCIAL LIABILITIES (CONT'D)

(b) Loans and borrowings (cont'd)

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.

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. The Company is in the process of renewing this facility with the bank.

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. The Company is in the process of renewing this facility with the bank.

29. DEFERRED GRANTS

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
At January 1	353,647	607,608	85,758
Received during the year	282,388	187,096	26,407
Released to consolidated statement of profit or loss	(28,427)	(117,976)	(16,651)
At December 31	607,608	676,728	95,514
Current (Note 24)	22,082	19,952	2,816
Non-current	585,526	656,776	92,698
	607,608	676,728	95,514

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

30. RELATED PARTY DISCLOSURES

The ultimate parent

As of December 31, 2019, the controlling shareholder of the Company, HLA, indirectly owned 17,059,154, or 41.8% (2018: 17,059,154, or 41.8%), 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% (2018: 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% (2018: 18.5%) 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 (less than US$0.01 million) during the financial years ended December 31, 2017, 2018 and 2019 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2019, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2018: 17.2%) of the ordinary shares in the capital of the Company.

30. RELATED PARTY DISCLOSURES (CONT'D)

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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Sales of engines and materials				
- associates and joint ventures	412,591	439,106	912,877	128,845
- GY Group (including its subsidiaries and affiliates)	455,061	406,422	1,792,280	252,965
Purchase of material, supplies and engines				
- associates and joint ventures	914,211	1,192,322	1,999,831	282,259
- GY Group (including its subsidiaries and affiliates)	1,221,421	1,589,638	1,895,239	267,496
Purchase of service				
- a joint venture	2,543	—	—	—
Hospitality, restaurant, consultancy and other service income charged to				
- a joint venture	14,241	3,456	3,984	562
- GY Group (including its subsidiaries and affiliates)	25,728	24,015	15,350	2,167
Rental income				
- GY Group (including its subsidiaries and affiliates)	4,483	3,886	2,133	301
- a joint venture	—	1,937	3,206	452
Property management service expenses				
- GY Group (including its subsidiaries and affiliates)	22,212	26,547	22,595	3,189
Leasing expenses(i)				
- GY Group (including its subsidiaries and affiliates)	8,676	25,705	—	—
General and administrative expenses				
- GY Group (including its subsidiaries and affiliates)	20,215	21,607	19,953	2,816
- HLA (including its affiliates)	6,913	6,639	6,788	958
Delivery, storage, distribution and handling expenses				
- GY Group (including its subsidiaries and affiliates)	210,406	228,195	304,532	42,982
Payment for trademarks usage fee				
- GY Group	—	—	169,811	23,967
Payment for lease liabilities				
- GY Group (including its subsidiaries and affiliates)	—	—	33,594	4,741
Purchases of vehicles and machineries				
- GY Group (including its subsidiaries and affiliates)	52,443	6,144	2,817	398
Purchases of additional shareholding in a subsidiary from				
- GY Group (including its subsidiaries and affiliates)(ii)	1,335	—	—	—
Disposal of shareholding in an associate to				
- GY Group (including its subsidiaries and affiliates)(iii)	1,833	—	—	—

30. RELATED PARTY DISCLOSURES (CONT'D)

Note:

(i) As disclosed in Note 2.4, the Group has adopted IFRS 16 on January 1, 2019. These leasing expenses have been recognized as right-of-use assets and lease liabilities on the consolidated statement of financial position as at December 31, 2019.

(ii) In June 2017, GYAMC acquired 25% of equity interest in Crankshaft from GY Group with a purchase consideration of RMB 1.3 million.

(iii) In August 2017, YEMC disposed its 30% equity interest in Property Management to GY Group 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

	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Short-term employee benefits	40,831	39,703	41,606	5,872
Contribution to defined contribution plans	385	335	362	51
Cost of share-based payment	1,294	—	—	—
	42,510	40,038	41,968	5,923

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

31. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

The Group has various lease contracts that have not yet commenced as at December 31, 2019. The future lease payments these non-cancellable lease contracts are as follows:

	31.12.2019 RMB'000	31.12.2019 US$'000
Within 1 year	105	15
After 1 year but within 5 years	85	12
After 5 years	—	—
	190	27

31. COMMITMENTS AND CONTINGENCIES (CONT'D)

Capital commitments

As of December 31, 2018 and 2019, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid and not recognized amounting to RMB 774.5 million and RMB 594.0 million (US$83.8 million) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2018 and 2019, the Group has commitment of RMB 58.8 and RMB 17.6 million (US$2.5 million) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2018 and 2019, Yuchai had issued irrevocable letter of credits of RMB 93.5 million and RMB 30.8 million (US$4.4 million), respectively.

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.

32. SEGMENT INFORMATION

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

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

32. 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, 2017	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 7.1)	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

32. 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
Revenue					
Total external revenue (Note 7.1)	16,210,467	52,781	—	—	16,263,248
Results					
Interest income	124,653	4,244	18,347	—	147,244
Interest expense	(107,609)	(403)	(327)	—	(108,339)
Impairment of property, plant and equipment	(30,173)	—	—	—	(30,173)
Staff severance cost	(28,018)	—	—	—	(28,018)
Depreciation and amortization	(428,199)	(5,355)	(331)	—	(433,885)
Share of profit of associates and joint venture	10,809	825	—	—	11,634
Income tax expense	(175,956)	(820)	(49)	(29,842)[1]	(206,667)
Segment profit after tax	1,019,776	4,156	(19,690)	(29,842)[1]	974,400
Total assets	20,636,155	441,040	2,081,220	(1,500,451)	21,657,964
Total liabilities	(10,318,492)	(55,404)	(29,592)	(106,922)[2]	(10,510,410)
Other disclosures					
Investment in joint ventures	220,176	2,636	—	—	222,812
Capital expenditure	403,179	2,643	73	—	405,895

32. SEGMENT INFORMATION (CONT'D)

Year ended December 31, 2019	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 (Note 7.1)	17,980,304	35,781	—	—	18,016,085	2,542,813
Results						
Interest income	158,855	5,167	13,239	—	177,261	25,019
Interest expense	(126,379)	(51)	(421)	—	(126,851)	(17,904)
Impairment of property, plant and equipment	(3,950)	—	—	—	(3,950)	(558)
Staff severance cost	(15,454)	—	—	—	(15,454)	(2,181)
Depreciation and amortization	(458,665)	(5,551)	(993)	—	(465,209)	(65,661)
Share of profit of associates and joint venture	18,137	897	—	—	19,034	2,686
Income tax expense	(141,330)	(527)	(41)	(30,721)[1]	(172,619)	(24,364)
Segment profit after tax	884,562	4,457	1,939	(30,258)[1]	860,700	121,480
Total assets	22,817,479	416,397	2,120,767	(1,500,452)	23,854,191	3,366,811
Total liabilities	(12,127,021)	(15,575)	(31,278)	(106,932)[2]	(12,280,806)	(1,733,329)
Other disclosures						
Investment in joint ventures	271,274	2,717	—	—	273,991	38,671
Capital expenditure	917,192	1,033	55	—	918,280	129,607

Note:

(1) This relates mainly to the deferred tax expense relating to withholding tax on dividends from Yuchai.

(2) This relates mainly to the deferred tax liabilities relating to cumulative withholding tax on dividends that are expected to be declared from income earned after December 31, 2007 by Yuchai.

Geographic information

The geographic information for revenue from external customers is disclosed in Note 7.1.

Revenue from one customer group amounted to RMB 5,205.5 million (US$734.7 million) (2018: RMB 4,463.9 million; 2017: RMB 4,839.6 million), arising from sales by Yuchai segment.

Non-current assets

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
People's Republic of China	4,665,990	5,764,591	813,622
Other countries	95,443	97,879	13,815
	4,761,433	5,862,470	827,437

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, investment in joint ventures and associates, investment property, intangible assets and goodwill.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2018 and 2019.

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, 2019.

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 28(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 (2018: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2019 of the Group would increase/decrease by RMB 21.4 million (US$3.0 million) (2018: increase/decrease by RMB 20.6 million).

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

Foreign currency risk

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

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

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

	31.12.2018				
	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

	31.12.2019				
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Renminbi RMB'000	Others RMB'000
Quoted equity securities	9,235	—	—	—	—
Trade and other receivables	607	414	7,624	658	—
Cash and bank balances	228,589	52	11,233	2,595	7,364
Financial liabilities	(15,710)	—	(139,524)	—	—
Trade and other payables	(7,086)	(27,922)	(10,596)	(2,605)	(83)
Net assets/(liabilities)	215,635	(27,456)	(131,263)	648	7,281
US$'000	30,435	(3,875)	(18,527)	91	1,028

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

Foreign currency risk (cont'd)

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2018	**31.12.2019**	**31.12.2019**
	RMB'000	**RMB'000**	**US$'000**
Singapore Dollar	21,376	21,564	3,044
Euro	954	(2,746)	(388)
US Dollar	(46,741)	(13,126)	(1,853)
Renminbi	(949)	65	9

Equity price risk

The Group has investment in Thakral Corporation Ltd "TCL" which is quoted equity securities.

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:

	31.12.2018	**31.12.2019**	**31.12.2019**
	RMB'000	**RMB'000**	**US$'000**
Statement of profit or loss	2,188	924	130

Credit risk

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

Trade receivables

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

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

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

Credit risk (cont'd)

Trade receivables (cont'd)

An impairment analysis is performed at each reporting date using a provision matrix. The provision rates are determined based on days past due for groupings of various customer segments with similar loss patterns (i.e. by 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. Generally, trade receivables are written-off at management's discretion after assessment and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 17. The Group's share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 6.

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, 2018	**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**
Expected credit loss rate	6.3%	—	0.1%	—	6.3%	75.1%
Estimated total gross carrying amount at default	438,586	281,250	47,561	25,862	47,209	36,704
Expected credit loss	30,586	—	30	—	2,990	27,566

	Trade receivables					
			Days past due			
As at December 31, 2019	**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**
Expected credit loss rate	7.2%	—	6.9%	6.2%	10.9%	70.7%
Estimated total gross carrying amount at default	794,678	601,094	61,917	24,409	40,213	67,045
Expected credit loss	57,611	—	4,283	1,513	4,386	47,429

At December 31, 2019, the Group had top 20 customers (2018: top 20 customers) that owed the Group more than RMB 387.6 million (US$54.7 million) (2018: RMB 114.2 million) and accounted for approximately 50.0% (2018: 26.0%) 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 17. The Group's share of bills 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.

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

Liquidity risk (cont'd)

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

As at December 31, 2018	1 year or less RMB'000	2 to 5 years RMB'000	Total RMB'000
Financial assets			
Trade and bills receivables	7,389,106	—	7,389,106
Other receivables, excluding tax recoverable	140,505	—	140,505
Cash and bank balances	6,128,522	—	6,128,522
Quoted equity securities	21,876	—	21,876
Derivative not designated as hedges - foreign exchange forward contract	4,529	—	4,529
	13,684,538	—	13,684,538
Financial liabilities			
Loans and borrowings	2,033,519	15,196	2,048,715
Trade and other payables (Note 24)	7,008,592	160,091	7,168,683
Other liabilities	14	34	48
	9,042,125	175,321	9,217,446

As at December 31, 2019	1 year or less RMB'000	2 to 5 years RMB'000	Total RMB'000	Total US$'000
Financial assets				
Trade and bills receivables	7,742,301	—	7,742,301	1,092,758
Other receivables, excluding tax recoverable	161,292	—	161,292	22,765
Cash and bank balances	6,390,918	—	6,390,918	902,023
Quoted equity securities	9,235	—	9,235	1,304
	14,303,746	—	14,303,746	2,018,850
Financial liabilities				
Loans and borrowings	2,085,456	—	2,085,456	294,344
Trade and other payables (Note 24)	8,447,756	176,302	8,624,058	1,217,210
Lease liabilities	29,838	35,263	65,101	9,188
Derivative not designated as hedges - foreign exchange forward contract	999	—	999	141
	10,564,049	211,565	10,775,614	1,520,883

34. CAPITAL MANAGEMENT

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

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

	31.12.2018 RMB'000	31.12.2019 RMB'000	31.12.2019 US$'000
Loans and borrowings (current and non-current) (Note 28(b))	2,016,092	2,055,046	290,052
Lease liabilities (current and non-current) (Note 27)	—	60,007	8,469
Other liabilities (current and non-current) (Note 28(a))	48	—	—
Trade and other payables (current and non-current) (Note 24)	7,191,134	8,644,393	1,220,081
Less: Cash and bank balances (Note 18)	(6,128,522)	(6,390,918)	(902,023)
Net debts	3,078,752	4,368,528	616,579
Equity attributable to equity holders of the parent	8,395,849	8,767,529	1,237,460
Total capital and net debts	11,474,601	13,136,057	1,854,039

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, 2018 and 2019.

As disclosed in Note 22, 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, 2018 and 2019.

35. FAIR VALUE MEASUREMENT

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

	Date of valuation	Total RMB'000	Fair value measurement using: 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 16)	December 31, 2018	21,876	21,876	—	—
Derivative financial assets:					
Foreign exchange forward contract - USD[(i)] (Note 16)	December 31, 2018	4,529	—	4,529	—
Debt instruments[(ii)]:					
Bills receivable (Note 17)	December 31, 2018	6,981,106	—	6,981,106	—

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2019:

	Date of valuation	Total US$'000	Total RMB'000	Fair value measurement using: 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 16)	December 31, 2019	1,304	9,235	9,235	—	—
Debt financial assets[(ii)]:						
Bills receivable (Note 17)	December 31, 2019	988,728	7,005,234	—	7,005,234	—
Liabilities measured at fair value						
Derivative financial liabilities:						
Foreign exchange forward contract - USD[(i)] (Note 28)	December 31, 2019	141	999	—	999	—

35. FAIR VALUE MEASUREMENT (CONT'D)

Note:

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

(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 2019 and 2018.

36. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As at December 31, 2018						
Financial assets						
Quoted equity securities	16	21,876	—	—	—	21,876
Derivative not designated as hedges - foreign exchange forward contract	16	4,529	—	—	—	4,529
Trade and bills receivable	17	—	408,000	6,981,106	—	7,389,106
Other receivables	17	—	140,505	—	—	140,505
Cash and bank balances	18	—	6,128,522	—	—	6,128,522
		26,405	6,677,027	6,981,106	—	13,684,538
Financial liabilities						
Trade and other payables	24	—	—	—	7,129,860	7,129,860
Loans and borrowings	28(b)	—	—	—	2,016,092	2,016,092
Other liabilities	28(a)	—	—	—	48	48
		—	—	—	9,146,000	9,146,000

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

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized 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, 2019							
Financial assets							
Quoted equity securities	16	9,235	—	—	—	9,235	1,304
Trade and bills receivable	17	—	737,067	7,005,234	—	7,742,301	1,092,758
Other receivables	17	—	161,292	—	—	161,292	22,765
Cash and bank balances	18	—	6,390,918	—	—	6,390,918	902,023
		9,235	7,289,277	7,005,234	—	14,303,746	2,018,850
Financial liabilities							
Trade and other payables	24	—	—	—	8,584,360	8,584,360	1,211,607
Lease liabilities	27	—	—	—	60,007	60,007	8,469
Loans and borrowings	28(b)	—	—	—	2,055,046	2,055,046	290,052
		—	—	—	10,699,413	10,699,413	1,510,128

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.

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

Changes in liabilities arising from financing activities

	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
As at December 31, 2018						
Loans and borrowings						
- current	1,600,000	400,320	694	—	—	2,001,014
- non-current	26,341	(11,756)	(305)	798	—	15,078
Obligations under finance leases						
- current	33	(33)	—	—	14	14
- non-current	46	—	—	2	(14)	34
Total liabilities from financing activities	1,626,420	388,531	389	800	—	2,016,140

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

Changes in liabilities arising from financing activities (cont'd)

	January 1, 2019 RMB'000	Effect of adoption of IFRS 16 RMB'000	January 1, 2019 (Restated) RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Foreign exchange movement RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2019 RMB'000	December 31, 2019 US$'000
As at December 31, 2019											
Loans and borrowings											
- current	2,001,014	–	2,001,014	39,979	–	–	(1,469)	444	15,078	2,055,046	290,052
- non-current	15,078	–	15,078	–	–	–	–	–	(15,078)	–	–
Obligations under finance leases											
- current	14	(14)	–	–	–	–	–	–	–	–	–
- non-current	34	(34)	–	–	–	–	–	–	–	–	–
Lease liabilities											
- current	–	42,457	42,457	(51,283)	6,008	2,918	–	24	28,509	28,633	4,041
- non-current	–	54,395	54,395	–	5,465	–	–	23	(28,509)	31,374	4,428
Total liabilities from financing activities	2,016,140	96,804	2,112,944	(11,304)	11,473	2,918	(1,469)	491	–	2,115,053	298,521

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

37. SUBSEQUENT EVENT

Since December 2019, an outbreak of a novel strain of coronavirus (COVID-19) spread rapidly in China and globally. In an effort to contain the spread of the virus, many countries, including China, the United States and across Europe, have imposed restrictions on travel and in-person gatherings, suspensions of public events, business closures, quarantines and lock-downs, resulting in a substantial reduction in economic activity. In March 2020, the World Health Organization declared COVID-19 a pandemic.

Yuchai's operations and those of its suppliers are predominantly based in China and therefore have been adversely affected by the foregoing measures and recovery is ongoing. The market outlook for automobile industry sales has deteriorated, national and global economic growth has slowed and the liquidity and financial conditions of Yuchai's customers have weakened. Yuchai has experienced and is continuing to experience increased supply lead times, supply disruptions, reduced manufacturing capacity and limited transport and shipping options from and to affected regions.

Due to the Chinese government's effective containment measures of COVID-19 and our employees' tireless efforts during this period, Yuchai has observed an initial recovery in its operations. Yuchai resumed operations in mid-February 2020 at a relatively small scale due to the shortage of engine components and materials as a result of continuing supply chain disruptions. Utilization rate surpassed 50% in mid-March 2020 and ramp up is continuing. While the COVID-19 pandemic is ongoing and its dynamic nature makes it difficult to forecast the pandemic's effects on Yuchai's results of operations for 2020 and in subsequent years, as of the date of this Annual Report, the Company expect a decline in both production and sales in the first quarter of 2020 compared to the same period of 2019 with potential continuing impact in subsequent periods.

REFERENCE **INFORMATION**

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