China Yuchai International Limited

GEARING TOWARDS A

Greener Future

ANNUAL REPORT 2012

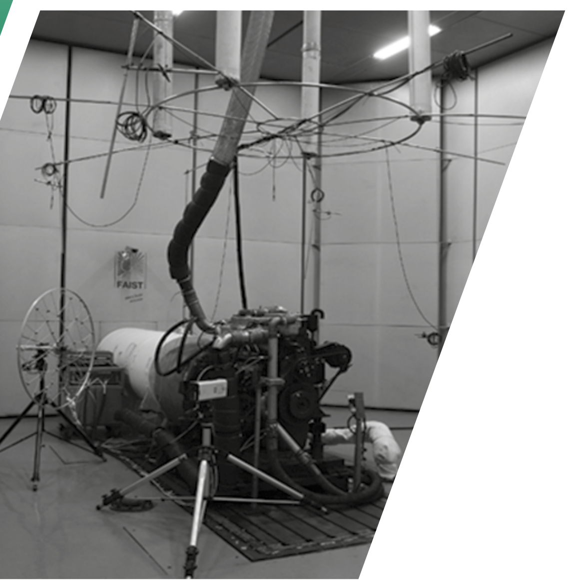
GEARING TOWARDS A GREENER FUTURE

- We delivered 19,867 natural gas engines to both truck manufacturers and bus OEMs in 2012, an increase of 60% compared with 2011. Our new natural gas facility at our main manufacturing facility at Yulin City, Guangxi Province is expected to be completed in the second half of 2013;
- We expect to launch seven National V compliant new models of natural gas engines and five National IV compliant new models of diesel engines in 2013;
- Our natural gas engines are now used by municipal bus, tour coaches and school bus operators in several provinces such as Shaanxi, Zhejiang and Hebei and have the capability to operate at high altitudes;
- We commercially launched our National IV compliant YC6MK LNG gas engine and 100 units of the engines are currently in use in Qinghai Province, a resource rich area located in North West China;
- We won two of the most prestigious commercial vehicle after-sales service awards from the *Commercial Vehicle* publication in 2012. We are expanding our expertise in after-sales to ensure our capability to service commercial vehicles who have to comply with increasing stringent emission standards.

National IV compliant YC6MK LNG engine

CONTENTS

Front cover: Photos on the left capture the assembly process at Guangxi Yuchai Machinery Company Limited's main manufacturing plant in Yulin City. The photo on the right is of GYMCL's new highly automated foundry.



CHINA YUCHAI'S CORE IDEALS

VISION

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

MISSION

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

玉柴国际的核心理念

愿景

- 成为卓越环保发动机和汽车系统制造商和提供优良产品及一流服务的供应商

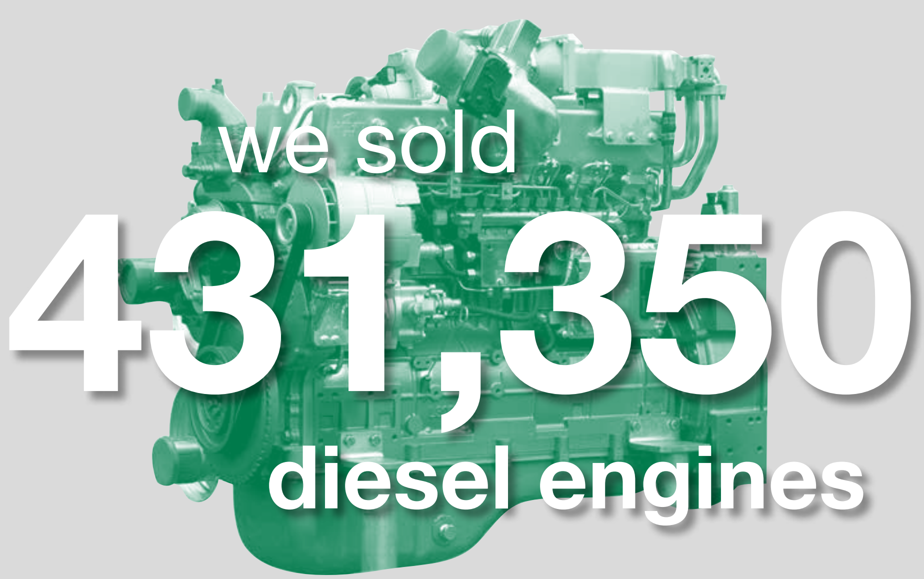
使命

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

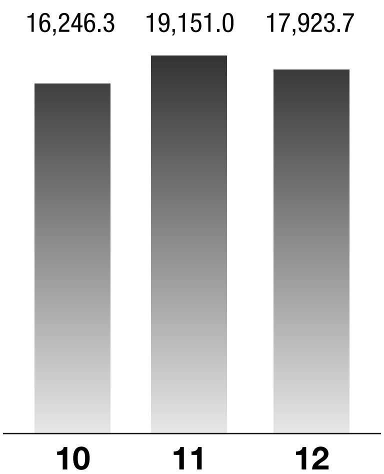
FINANCIAL HIGHLIGHTS

	2010 Rmb'000	2011 Rmb'000	2012 Rmb'000
Net revenue	16,208,184	15,444,428	13,449,489
Profit attributable to equity holders of the Parent*	1,117,297	818,532	567,333
Earnings per share attributable to ordinary equity holders of the Parent	29.98	21.96	15.22
Weighted average number of shares	37,267,673	37,267,673	37,267,673
Total assets	16,246,263	19,151,019	17,923,673
Equity attributable to equity holders of the Parent	5,097,947	5,542,203	5,901,913

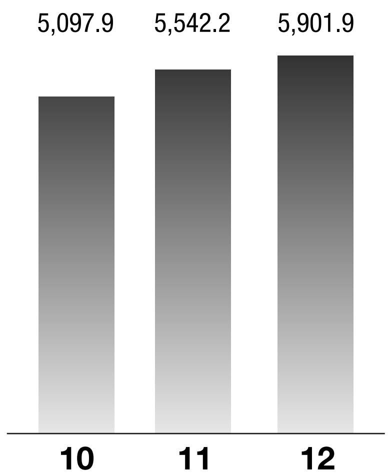
*the term " Parent" as used here refers to China Yuchai.



TOTAL ASSETS
(in Rmb millions)

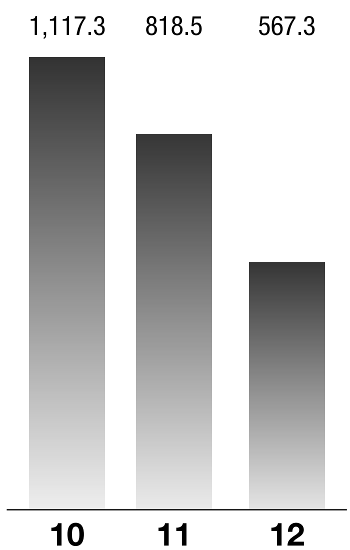


EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in Rmb millions)

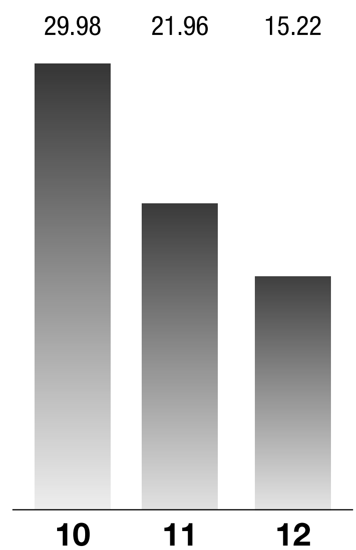


NET REVENUE
(in Rmb billions)

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT
(in Rmb millions)



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



PRESIDENT'S STATEMENT

NET REVENUE RMB13.45 billion

OPERATING PROFIT RMB1.16 billion

DIESEL ENGINES SOLD 431,350

Dear Shareholders,

It is a pleasure for me to write this President's Statement as Acting President of China Yuchai International Limited ("Company"), a role I assumed with effect from June 1, 2013 upon the departure of Mr Benny Goh, the immediate past President of the Company.

Our strategy of leveraging our leadership position in the automotive manufacturing sector in China and diversifying our product lines to meet the needs of multiple market segments, worked to our advantage in 2012. After a sluggish 2011, demand in the Chinese commercial vehicle market dropped further in 2012 as infrastructure spending slowed and economic growth decreased from 9.2% in 2011 to 7.8% in 2012, the first time China's annual growth rate fell below 8% since 1999 according to official statistics. The China Association of Automobile Manufacturers (CAAM) reported that in 2012, diesel-powered commercial vehicle sales declined 9.0%, diesel truck sales decreased 10.3% and heavy-duty diesel trucks were 28.6% below 2011 levels. However, in such a market, we maintained our leading position, defended our margins and continued to generate free-cash-flow. As the leading supplier of engines to the bus market, we also benefited from a 2.1% increase in overall bus sales in 2012 compared with 2011.

Our net revenue in 2012 was RMB 13.45 billion (US$ 2.14 billion) compared with RMB 15.44 billion in 2011. The total number of diesel engines sold by our main operating subsidiary, Guangxi Yuchai Machinery Company Limited ("GYMCL") in 2012 numbered 431,350 units compared with 510,777 units in 2011, a decrease of 79,427 units or 15.6%. This lower unit sales reflected ongoing weaker demand in the commercial vehicle market, especially heavy-duty trucks.

In 2012, vehicle manufacturers drew down on their inventories of commercial vehicles as they adjusted their production rates. There were several challenges in the engine market which vehicle manufacturers faced such as increasing demands for higher performance and fuel-saving requirements by customers; the proposed implementation of higher emission standards by the Chinese government and other government mandates to improve the environment through the adoption of new engine technologies. During 2012, we increased research and development investment by 13.9% to RMB 373.7 million (US$ 59.6 million), which represented 2.8% of revenues compared with 2.1% in 2011. The higher research and development costs was the result of a focus on developing new engine products including natural gas engines, high horsepower products, lower emission engines, and continued quality improvements as we strategically continued to add new products to diversify our portfolio, already the broadest in the Chinese engine market.

In recent years, the policies of the Chinese government have encouraged energy conservation and emissions reduction. China's 12th Five-Year Plan targets a 16% and 17% reduction in energy use and carbon dioxide emissions respectively per unit of economic output by 2015. Out of seven strategic investment areas identified under the 12th Five-Year Plan, three relate to energy, namely clean energy, energy conservation and clean energy vehicles. During 2012, we introduced 7 new natural gas engine models, all capable of compressed natural gas (CNG) and liquefied natural gas (LNG) configurations, in the light-, medium- and heavy-duty engine markets. Natural gas engine sales rose to 19,867 units from 12,487 units in 2011. One prong of our strategy is to provide natural gas engines to complement our diesel engines and provide our customers with an alternative as natural gas engines produce lower emissions at nearly the same power at lower costs. We plan to continue to introduce even more natural gas engine models and upon the completion of our gas engine development project at our main manufacturing facility at Yulin City, our manufacturing capacity will increase to 30,000 units with room for more growth. Our immediate market for our natural gas engines are the many metropolitan areas of China where our engines are an excellent match for the large buses that currently operate there. Already, our natural gas engines power buses in first-tier cities such as Shanghai and Beijing and more cities are purchasing them as we have captured almost a 75% market share of the bus natural gas engine market in China. As municipal and school buses travel relatively short distances from their home bases, re-fueling is easy. The necessary re-fueling infrastructure is being planned and the construction of a re-fueling infrastructure along extended highways between cities will make natural gas engines more attractive for longer distance bus and truck travel.

Our new high horsepower engines are significantly larger than our traditional engines in the truck and bus market, up to 54 liters in size. These engines are primarily being developed and marketed to the growing off-road markets especially marine, mining and power generator applications. In addition to further diversifying our engine portfolio, these more powerful diesel and natural gas fueled engines will allow us to capture sales previously beyond our reach which will enhance our market share in these segments. A new facility is under construction at Yulin City to manufacture such engines which will assist us to reach our goal of being one of the major players in China's heavy-duty engine segment by 2015.

We are committed to being the national leader in emissions reduction and one of our "green" directives is to conserve resources and reduce pollution in China. In this regard, we have achieved several firsts in the following areas: the first to introduce the National IV standard diesel engine in China, the first Euro 5 electronic-controlled diesel engine launched in China, the first 4-cylinder Integrated Starter/Generator (ISG) hybrid diesel bus engine in China and China's first self-developed National VI compliant diesel engine. Today, all our engines meet the National III emission standards and some models are compliant with the more stringent National IV emission standards. The National IV emission standards have already been implemented in Beijing, Shanghai and Guangzhou and are scheduled to be in force nationwide on July 1, 2013. We already have compliant engines to meet the demand. We expect municipal bus operators to demand National IV and V engines to combat urban pollution as evidenced by over 100 of our National V compliant engines being used in municipal buses in Beijing since late 2010.

During 2012, our National IV and V natural gas engines also penetrated key new markets. Since early 2012, our natural gas engines have been in demand by municipal bus, tour coach and school bus operators in various municipalities in the key northwest Shaanxi Province including Yulin, Baoji, Yan'an, Tongchuan and Hanzhong. Our YC6L240N natural gas engines are the first Euro-V compliant engines to be used by the Hangzhou Public Transport Corporation in the entire Zhejiang province. Also, 80 buses using one of our National IV compliant natural gas engines successfully completed the climate requirements for operating at high altitudes. This successful trial highlights our leadership in technology and quality, and positions us to contribute to and benefit from the ongoing economic development of northwest China.

Our new Research & Development Institute ("R&D Institute") located in the High-Tech Development Zone of Nanning, the capital of Guangxi Province, will allow us to maintain our technology leadership. Construction on the R&D Institute has been completed and trial runs on the equipment have commenced. The R&D Institute will be fully operational in the second half of 2013. Once operational, the R&D Institute will expand our knowledge base and set a new domestic standard for engine design and manufacturing. New engines and technologies developed will be especially useful in maintaining our leadership in emission standards as environmental considerations become one of the key purchasing factors. As we see the results generated by the R&D Institute, we are confident that GYMCL's brand reputation will only be enhanced as we can provide more advanced solutions to our customers in the areas of performance, cost savings and emission controls.

Our joint ventures saw progress during 2012 as they moved closer to reaching their strategic goals. Our "green" remanufacturing joint venture with Caterpillar saw the completion of its permanent facility at Suzhou Industrial Park and the commencement of full operations. The remanufacturing process utilizes fewer natural resources and is more environmentally friendly than manufacturing new engines. Both GYMCL and Caterpillar's engines and components will be remanufactured to provide our customers with a cost effective way to extend the life of their engines. We will utilize GYMCL's nearly 3,000 service centers, the largest automotive service network in China, to promote our remanufactured products and to further cement our industry leadership and our relationship with customers. During 2012, we entered into an equity swap with another shareholder in our joint venture with Geely resulting in us taking control of the 4D20 diesel engine development for passenger vehicles. The second-generation prototype engine is progressing with testing expected to be completed by mid-2013 with further development throughout 2013. Our joint venture with CIMC-Chery for the production of the YC6K engine has a capacity of 30,000 units and we believe that this next-generation engine holds a lot of promise in the heavy-duty engine market in China. We have complemented the YC6K diesel engine with a natural gas version with the highest power at 450 horsepower in this engine class but with lower emissions compared to its diesel engine counterpart. Additionally, in June 2013, we announced that GYMCL and its joint venture company, Y&C Engine Co., Ltd. have entered into a Framework Agreement with Baotou Bei Ben Heavy Duty Truck Co., Ltd. and Inner Mongolia First Machinery Group Co., Ltd., to form a new joint venture company. The new company will focus on the production of our diesel and gas engine models YC6A, YC6L, YC6MK and YC6K to meet the future needs of Bei Ben's heavy-duty and medium-duty trucks and buses. We are excited about this joint venture as Baotou Bei Ben Heavy Duty Truck is one of the leading truck manufacturing companies in China.

We completed the construction of phase 2 of our foundry expansion and production began in March 2013. With full production at phases 1 and 2, we will have the largest foundry and casting facility in China with a one million engine heads/blocks capacity. This will make us self-sufficient for the foreseeable future in the production of engine blocks and heads, which are the largest components of our engines. We have already achieved higher quality through a less than 1% rejection rate and raw material savings of approximately 5% with Phase 1 of the foundry and we look forward to realizing increased benefits from continued higher quality and greater economies-of-scale with the expanded foundry.

Our profitability was affected by the product mix as we sold more lower-margin, light-duty engines due to current market conditions. However, our broad range of engines addressing the needs of different industries enabled us to become the diesel engine manufacturer with the largest market share in China last year. We continued to remain profitable with total net profit attributable to China Yuchai's shareholders of RMB 567.3 million (US$ 90.5 million), or earnings per share of RMB 15.22 (US$ 2.43). On June 17, 2013, we rewarded our shareholders by declaring a cash dividend of US$0.80 per share to be paid out on July 10, 2013 to shareholders of record as of June 28, 2013. We continue to share our profits with shareholders even during challenging market conditions.

China's commercial vehicle growth is generally expected to remain slow in early 2013 although we may see some increase in demand due to pre-buying before the implementation of the National IV emission standards nationwide. The Chinese government has targeted 2013 growth to be 7.5% due to the continuing impact of the global financial crisis and the uncertain recovery of the world economy. The transition of a once-in-a-decade leadership change in China, which commenced in November 2012 was completed in mid-March 2013. In view of the announced restructuring of China's economy to one more focused on domestic consumption instead of investment and exports, changes to existing economic policies are expected to be implemented by the new leadership. We expect to launch 12 new engines in 2013 to add to our advanced, low-emission suite of engines. Out of the 12 new models, seven are National V-compliant natural gas engines with the remaining five National IV-compliant diesel engines. These engines are expected to provide customers with a greater variety of engines as China implements increasingly stringent emission standards.

We continued in 2012, to implement our diversification strategy to meet the needs of a number of different industries with advanced diesel and natural gas engines to improve our market position and capture sales in new market segments even while introducing more advanced, environmentally friendly engines. We are now better positioned, with our enhanced research and development capabilities and new engines, for the future. Our focus remains on increasing market share, improving profitability and generating steady cash flow for our shareholders.

Kok Ho LEONG
Acting President/Chief Financial Officer, July 1, 2013

总裁致词

亲爱的股东,

我十分荣幸地以代理总裁的身份来发表这份致词。自2013年6月1日起，我便担任中国玉柴国际有限公司（“公司”）的代理总裁，以承担离任总裁吴兴兴先生的职务。

我们在2012年，成功地利用我们在汽车制造业领导地位和多元化产品线以满足细分市场的需求战略，继续扩大战果。由于中国基础建设停滞不前和经济增长从2011年的9.2% 下滑至2012年的7.8%，官方统计数据显示这乃是中国自1999年以来首次低于8% 的年增长速度，造成中国商用汽车市场的需求在2012年进一步下滑。根据中国汽车工业协会（CAAM）报道，2012年的柴油商用车销量下降了9.0%，柴油卡车下降了10.3%，重型柴油车则与2011年相比降低了28.6%。然而，在如此的市场中，我们巩固了我们的市场领导地位，增加了市场份额，维持了利润率，产出了强劲的现金流。作为客车发动机市场的领先供应商，我们也受益于2012年整体客车的销售，与2011年相比该领域增加了2.1%。

在2012年，我们的净营业收入为人民币134.5亿元（美元 21.4亿），2011年则是人民币154.4亿元。我们的子公司，广西玉柴机器股份有限公司（“GYMCL”）在2012年销售出柴油机431350台，2011年则是510777台，减少了79427台或15.6%。销量减少反映了商用车市场，尤其是重型卡车方面，需求持续疲软。

2012年，商用车制造商大副削减生产率，并积极消耗库存。汽车制造商在发动机市场面临一些挑战，如：更多客户要求更高性能和省油的产品，中国政府建议实施更高的排放标准和其他通过新发动机技术来改善环境的要求。在 2012年，我们的研发经费增加了13.9%至人民币3.737亿元（美元5960万元），占收入的2.8%，比2011年的2.1%提高了。我们专注于开发新产品，包括：气体机，高马力发动机，低排放发动机，并持续改进质量，造成研发经费的增加。在中国发动机市场上，我们拥有最多元化的产品，然而战略上我们仍然继续增加新产品以丰富我们的产品组合。

近年来，中国政府推出鼓励节能减排的政策。中国十二五计划提出在2015年单位GDP能耗和二氧化碳排放量分别减少16%和17%。在十二五计划中提到的七大战略性投资领域，其中有3项涉及能源，即：清洁能源，节能和清洁能源汽车。在2012年，我们推出7款面向轻型、中型和重型发动机市场以天然气为燃料的新气体机，并都是压缩天然气（CNG）和液化天然气（LNG）的配置。气体机的销量从2011年的12,487台增加到2012年的19,867台。策略上，由于气体机能够在较低的成本上产生更低排放和与柴油机几乎相同的功率，气体机将对我们的柴油机起到互补的作用。我们计划继续推出更多新款气体机，另外当我们在玉林的气体机主要生产设施完成后，我们的生产能力将增加至30,000台，并具备成长空间。中国的许多大都市地区是我们气体机的直接市场，我们的气体机与在那里经营的大型客车是绝妙的搭配。一些一线城市，如：上海，北京以及其它的城市都使用装配我们气体机的客车，这使得我们在中国的气体机客车市场占有75% 的市场份额。由于市区和校车的行驶路线相对来说较短，因此重新添加天然气比较容易。天然气添加站的基础设施正在规划中，而在城市之间的道路上建设天然气添加站基础设施将增加气体机对长途旅游大巴和卡车的吸引力。

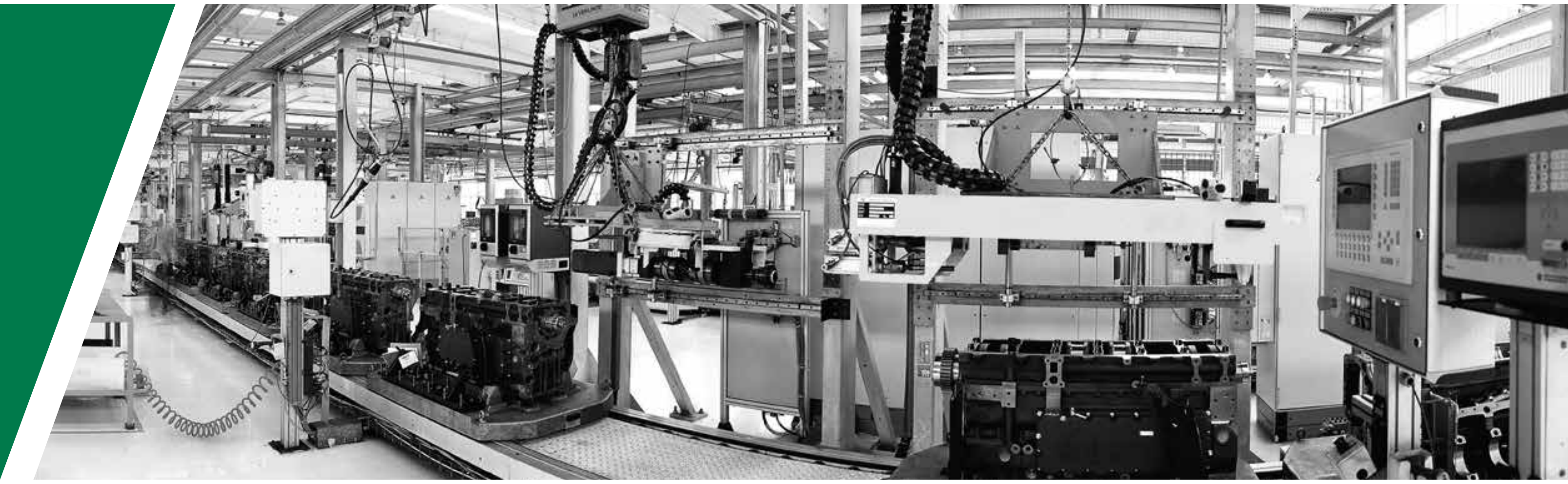
在高马力卡车和客车市场方面，我们高达54升容量的新高马力发动机明显大于传统发动机。开发和销售这些高马力发动机主要是为了增长中的非道路用市场，特别是船用、矿用和发电用的市场。除了进一步多元化我们的发动机组合，更高马力的柴油机和气体机将使我们进入之前触不可及的领域，从而提升我们在这些细分市场的市场份额。在玉林制造高马力发动机的新设施正在建设中，这将帮助我们成为中国重型发动机的主要参与者之一。

我们致力于成为国内的减排先锋，而我们的“绿色”使命乃是帮助中国节约资源和减少污染。在2012年，我们获得的里程碑有：第一个发布中国国IV标准的柴油机，推出第一个欧5电控柴油机，混合4缸集成式起动/发电机（ISG）客车柴油机和中国首个自主研发的国6标准柴油机。今天，我们所有的发动机都符合国III排放标准，部分型号符合更严格的国IV排放标准。国IV排放标准已经在北京、上海和广州实施，预计将在2013年7月1日普及全国。我们已经拥有达标的发动机来满足需求。可以预见的是城市公交运营商将要求国IV和V的发动机以对抗城市污染，这可从自2010年底以来超过100台我们符合国Ⅴ标准的发动机被用于北京市公交车获得证明。

2012年期间，我们的国IV和V气体机渗透入新市场。2012年年初，陕西省西北直辖市包括榆林，宝鸡，延安，铜川和汉中的市区公交、旅游客车和校车对我们气体机发出需求。杭州公交总公司将会在整个浙江省使用我们首个符合欧V标准的气体机，YC6L240N。此外，80辆公交使用符合国IV标准的气体动机成功地在高海拔地区的运作。这些成功凸显了我们在技术和质量上的先进地位，使我们能够对正在开发的中国西北地区经济发展做出贡献并从中受益。

我们位于广西南宁高新技术开发区的新研发中心（“研发中心”），将使我们保持先进技术的领先地位。研发中心的建设已经完成，并已开始试行运作。研发中心将在2013年下半年全面投入运作。一旦投入使用，研发中心将扩大我们的知识面，并树立国内发动机新设计和制造标准。新发动机和开发技术将有助于我们保持排放标准的领导地位，尤其是环境考量成为购买的关键因素之一。从成立研发中心的效果来看，我们有信心玉柴股司的品牌美誉度将会增强，尤其是我们可以为客户在性能、成本节约和排放控制方面提供更先进的解决方案。

合资公司方面，我们在2012年看到了进展，并靠近其战略目标。我们与卡特彼勒合资的“绿色”再制造公司在苏州工业园区的永久设施建设完成并开始全面投产。再制造过程中使用更少的自然资源，比制造新的发动机更环保。玉柴股司和卡特彼勒的发动机和零部件将通过再制造为我们



的客户提供具有成本效益的方式来延长发动机的寿命。我们将利用玉柴股司近3000个服务中心，中国最大的汽车服务网络，以推动我们的再制造产品，并进一步巩固我们的领导地位和与客户的关系。在2012年，我们在与吉利合资的公司通过与另一名股东交换股权的方式获得发展4D20乘用车 柴油机的控制权。第二代样机正在测试中，预计将于2013年年中完成，并将在2013年的进一步发展。我们与奇瑞-中集合资生产的YC6K发动机，拥有30,000台的生产能力，我们相信这新一代发动机在重型发动机市场在中国中长期的前景较乐观。我们为YC6K柴油机发布气体机版本，其最高功率为450马力，然而与柴油机相比，其拥有较低的排放量。此外，我们在2013年6月宣布玉柴股司伙同其合资公司，Y＆C发动机有限公司与包头北奔重型汽车有限公司和内蒙古第一机械集团有限公司签订合资框架协议，以共同组成一家新合资公司。新合资公司将专注于生产我们的YC6A，YC6L，YC6MK和YC6K系列柴油机和气体机，以满足北奔对重型、中型卡车和客车的未来需求。由于包头北奔重型汽车是中国领先卡车制造公司之一，因此我们十分高兴能够达成这个合资项目。

我们完成了第二期的铸造中心建设，并在2013年3月开始生产。当第1期和第2期的铸造中心完全投产，我们将拥有中国最大的铸造和铸件设施，具备生产100万个发动机缸盖/缸体的能力。这将使我们在可预见的未来，在生产我们的发动机最大组成部分发动机缸体和缸盖方面，能够自给自足。铸造中心使我们的产品质量不断提高，不到1％的退货率和约5％的原材料节省，而随着铸造中心的扩张，我们期待从更高品质和更大规模经济中增加效益。在此，我很高兴地和大家分享，从玉柴股司自1951年成立以来到2012年，我们经已推出460万台柴油机。

我们的利润受到产品销售组合的影响，这是由于在当前市场条件的因素下，我们销售更多利润较低的轻型发动机。然而，我们多元化的发动机系列能够满足不同行业的需求使我们在去年成为拥有中国最大市场份额的柴油机制造商。我们依然保持盈利，中国玉柴股东总应占利润为人民币5.673亿元（美元9050万），或每股盈利人民币15.22元（美元2.43）。在2013年6月17日，我们通过宣布每股0.80美元的现金股息来回报我们的股东，股息将在2013年7月10日支付给截至2013年6月28日记载在股东名册上的股东。这显示我们继续与股东分享公司的利润，即使在充满挑战的市场条件下。

预计在2013年初中国商用车的增长仍将缓慢，虽然我们预料在全国实施国IV排放标准之前需求会有些增加。由于持续受到全球金融危机和世界经济复苏不明朗因素的影响，中国政府经已将2013年的增长设定为7.5％。中国十年一次领导层换届的程序在2012年11月开始并在2013年3月中旬完成。鉴于中国已公布将调整经济结构到以国内消费为导向而不是投资和出口，预计新领导班子将改变现有的经济政策。我们预计将在2013年推出12个新款发动机，以增加我们先进、低排放的发动机系列。在这12个新款中，有七款是国V标准气体机，其余五款是国IV标准柴油机。由于中国实行越来越严格的排放标准，预计这些发动机将为客户提供更多的选择。

我们延续2012年的策略，继续实施产品多元化战略并推出更先进、环保发动机以满足不同行业对先进柴油机和气体机的需求，同时通过占领新细分市场来提高我们的市场地位，而加强研发能力和发布新发动机则有利于我们的未来。我们的重点仍然是增加市场占有率，提高盈利能力，并为我们的股东带来稳健的回报。

梁国豪先生
代理总裁兼首席财务官,2013年7月1日

CORPORATE BACKGROUND

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

The Group's principal operating subsidiary Guangxi Yuchai Machinery Company Limited ("GYMCL") is one of the largest diesel engine manufacturers in China. Located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, GYMCL produces and provides a comprehensive range of products covering light-duty, medium-duty to heavy-duty diesel engines, engine parts and components, diesel-powered generators, industrial engines, marine engines and natural gas engines to meet the needs across different sectors. GYMCL's products range from 1.2L to 54L over 10 engine platforms with a power range from 60PS to1200PS. In its current portfolio, the number of engine series offerings is 26 and GYMCL is intending to further expand its reach in the diesel passenger car and marine and power generator markets. Equipped with a strong research and development capability focused on product enhancement and new designs, GYMCL was the first to launch diesel engines compliant with National IV emission standards which is expected to be implemented nationwide in China in July 2013, and has already produced engines compliant with National IV and V emission standards.

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

CYI has also invested in two other companies in Singapore, namely Thakral Corporation Ltd ("TCL") and HL Global Enterprises Limited ("HLGE"). Currently, CYI holds 7.7% and 48.9% shareholding interest in TCL and HLGE respectively.

TCL group is a distributor of consumer electronic products with operations in the People's Republic of China (PRC) (including Hong Kong) and other Southeast Asian countries. The TCL group also invests in real estate and other investment opportunities as part of its overall business strategy.

The core businesses of HLGE are hospitality operations and property development. The HLGE group, through its joint venture companies, owns and manages hotels in Cameron Highlands, Malaysia and in Qingdao, PRC. HLGE also owns a service apartment building in Shanghai.

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

公司背景

中国玉柴国际有限公司（“玉柴国际”）于1993年4月29日在百慕大注册成立并于2008年3月7日在新加坡登记成立分公司。玉柴国际是新加坡丰隆亚洲有限公司（“丰隆亚洲”）的子公司并且在纽约证券交易所上市，其主要运营地区在中国。

广西玉柴机器股份有限公司（“广西玉柴”）是玉柴国际的主要子公司，其也是中国最大的柴油发动机制造商之一。广西玉柴位于中国南部的广西壮族自治区玉林市。公司生产制造销售多样化的机型产品，包括轻型柴油机、中型柴油机、重型柴油机、发动机零部件、柴油发电机、工业发动机、船机和天然气发动机等各类型产品来满足市场的不同需求。其产品涵盖十个主要机型容量从1.2升到54升，功率从60马力到1200马力的各种类型发动机。依托于现有组合，其有26个系列的发动机并且将进一步扩大其在柴油车、船机和发电机市场占有率。凭借其强大的产品提升和设计新产品的研发能力，广西玉柴为第一个推出符合国四排放标准柴油发动机的厂商，该标准预期于2013年7在全国范围内实行。其也有能力生产符合国五和国六排放标准的发动机。

广西玉柴以其高效可靠的产品性能及卓越的售后服务在汽车制造商和消费者中享有极高的声誉。通过6家全资子公司，目前玉柴国际持有广西玉柴76.4%的股权。此外，玉柴国际还在新加坡投资了另外两家公司，即丰隆环球有限公司（“丰隆环球”）和Thakral Corporation（“TCL”）。玉柴国际目前持有HLGE之48.9%和TCL之7.7%的股权。

TCL集团是一家从事消费类电子产品的分销，其运营地区主要分布在包括香港在内的中国地区和其他东南亚国家。除了消费类电子产品，TCL还涉足房地产开发及其他投资，作为其整体业务战略的一部分。

HLGE的核心业务是酒店经营与房地产开发。HLGE集团，通过合资公司，在马来西亚金马仑高原和中国青岛拥有和管理酒店。 HLGE同时在上海拥有酒店式服务公寓。

TCL和HLGE均在新加坡交易所主板上市。

OUR CHINA-WIDE PRESENCE

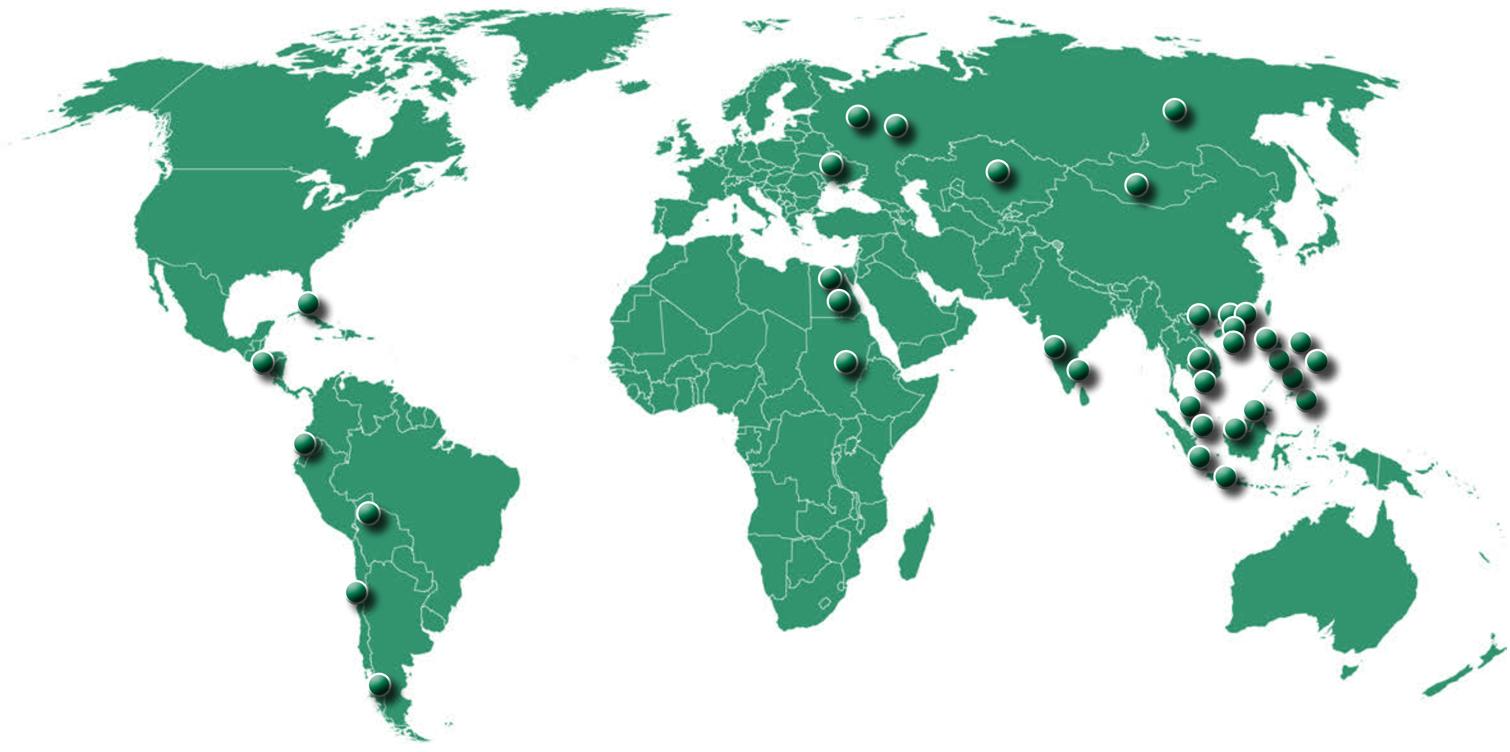
Guangxi Yuchai Machinery Company Limited
公司总部

32 regional offices
玉柴办事处

2803 customer service stations
玉柴技术服务站

As of June 2013

YUCHAI
OVERSEAS NETWORK



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Overseas Service Agents
Appointed as of June 2013

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 July 1, 2013, there are eight members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yi Yong 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
GAN Khai Choon (1)(4)	Director	1995
KWEK Leng Peck (1)(2)	Director	1994
YAN Ping (1)	Director	2012
WU Qi Wei (1)	Alternate Director to YAN Ping	2012
NEO Poh Kiat (1)(2)(3)	Director	2005
TAN Aik-Leang (1)(3)	Director	2005
HO Chi-Keung Raymond (2)(3)	Director	2013
HOH Weng Ming (1)(4)	Director	2011
HAN Yi Yong (1)	Director	2010
LEONG Kok Ho	Chief Financial Officer	2012
FOO Shing Mei Deborah	General Counsel	2007
Ira Stuart OUTERBRIDGE III	Secretary	2001

Mr. Yuen Francis and Ms. Wang Hong resigned as directors of the Company on January 15, 2013 and November 28, 2012, respectively.

Mr. Yan Ping was appointed as a director of the Company on November 28, 2012 and Mr. Wu Qi Wei was appointed by Mr. Yan to be his alternate director on the same date.

Mr. Matthew Richards resigned as a director of the Company on April 30, 2013. Mr. Ho Chi-Keung Raymond was appointed an independent director of the Company and as a member of the Audit and Compensation Committees on April 30, 2013.

Mr. Goh H Benny resigned as President and a director of the Company with effect from June 1, 2013.

(1) Also a Director of Yuchai.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Also a Director of HLGE.

BOARD OF DIRECTORS

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

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

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

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

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

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan is currently also a Director of the Risk Management Association, Hong Kong Chapter. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Chi-Keung Raymond was previously a director of the Company from June 2004 to September 2006 and was re-appointed to the Board of Directors on April 30, 2013. He was in private practice as a solicitor in Hong Kong, Mainland China and Canada between 1983 and 2006 with diverse experience in both contentious and non-contentious matters related to corporate commercial, financial and transnational transactions. He is now practicing independently as an arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to that between 1999 and 2006, he was a partner of Fred Kan & Co., a law firm based in Hong Kong with operations in Tokyo, Japan and Tianjin, China. In addition, he has held public service positions with the Hong Kong Trade Development Council and Hong Kong International Arbitration Centre (HKIAC). He holds the degrees of Bachelor of Laws and Master of

Social Sciences from the University of Hong Kong, as well as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the HKIAC's panel of arbitrators. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

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

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

EXECUTIVE OFFICERS OF THE COMPANY

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

FINANCIAL REPORT

Report of Independent Registered Public Accounting Firm

For the financial year ended December 31, 2012

The Board of Directors and Shareholders of China Yuchai International Limited (and subsidiaries)

We have audited China Yuchai International Limited and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). China Yuchai International Limited and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, China Yuchai International Limited (and subsidiaries) maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012 of China Yuchai International Limited (and subsidiaries) and our report dated April 22, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP
Singapore
April 22, 2013

Report of Independent Registered Public Accounting Firm

For the financial year ended December 31, 2012

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (and subsidiaries) as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited (and subsidiaries) at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 22, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP
Singapore
April 22, 2013

Consolidated Income Statement

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

	Note	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Continuing operations					
Sales of goods	7	16,138,580	15,378,190	13,381,025	2,133,488
Rendering of services	7	69,604	66,238	68,464	10,916
Revenue	7	16,208,184	15,444,428	13,449,489	2,144,404
Cost of sales (goods)	8.1	(12,112,215)	(11,966,496)	(10,532,463)	(1,679,310)
Cost of sales (services)		(87,038)	(35,653)	(37,142)	(5,921)
Gross profit		4,008,931	3,442,279	2,879,884	459,173
Other operating income	8.2(a)	129,075	102,403	176,409	28,126
Other operating expenses	8.2(b)	(41,447)	(29,325)	(44,059)	(7,024)
Research and development costs	8.1, 8.3	(324,123)	(328,140)	(373,732)	(59,588)
Selling, distribution and administrative costs	8.1	(1,822,764)	(1,652,129)	(1,475,038)	(235,182)
Operating profit		1,949,672	1,535,088	1,163,464	185,505
Finance costs	8.4	(130,446)	(156,174)	(213,019)	(33,964)
Share of (loss)/profit of associates	5	(121)	1,519	2,372	378
Share of results of joint ventures	6	(53,902)	(81,151)	(39,241)	(6,257)
Profit before tax from continuing operations		1,765,203	1,299,282	913,576	145,662
Income tax expense	9	(327,946)	(226,780)	(142,238)	(22,679)
Profit for the year from continuing operations		1,437,257	1,072,502	771,338	122,983
Discontinued operations					
Profit after tax for the year from discontinued operations	10	12,655	–	–	–
Profit for the year		1,449,912	1,072,502	771,338	122,983
Attributable to:					
Equity holders of the parent		1,117,297	818,532	567,333	90,456
Non-controlling interests		332,615	253,970	204,005	32,527
		1,449,912	1,072,502	771,338	122,983

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

Consolidated Income Statement

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

	Note	31.12.2010	31.12.2011	31.12.2012	31.12.2012
		Rmb	Rmb	Rmb	US$
Earnings per share	11				
Earnings per share for continuing operations:					
- basic and diluted, profit from continuing operations attributable to ordinary equity holders of the parent		29.64	21.96	15.22	2.43
Earnings per share:					
- basic and diluted, profit for the year attributable to ordinary equity holders of the parent		29.98	21.96	15.22	2.43
Weighted average number of shares:					
- basic and diluted		37,267,673	37,267,673	37,267,673	37,267,673

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

Consolidated Statement of Comprehensive Income

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Profit for the year	1,449,912	1,072,502	771,338	122,983
Other comprehensive loss				
Foreign currency translation	(22,084)	(3,112)	(9,094)	(1,450)
Other comprehensive loss for the year, net of tax	(22,084)	(3,112)	(9,094)	(1,450)
Total comprehensive income for the year, net of tax	1,427,828	1,069,390	762,244	121,533
Attributable to:				
Equity holders of the parent	1,102,048	809,939	561,923	89,594
Non-controlling interests	325,780	259,451	200,321	31,939
	1,427,828	1,069,390	762,244	121,533

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

Consolidated Statement of Financial Position

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

	Note	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	3,748,233	4,016,593	640,411
Prepaid operating leases	13	387,839	346,568	55,257
Goodwill	14	212,636	212,636	33,903
Intangible assets	15	24,754	135,411	21,590
Investment in associates	5	38,001	2,111	337
Investment in joint ventures	6	456,745	376,520	60,033
Deferred tax assets	9	359,332	353,382	56,343
Other investments		17,284	–	–
		5,244,824	5,443,221	867,874
Current assets				
Inventories	18	2,416,056	2,010,755	320,597
Trade and bills receivables	20	6,690,917	6,591,736	1,050,995
Prepayments		100,863	53,728	8,567
Other receivables	21	466,069	243,333	38,797
Prepaid operating leases	13	11,292	12,614	2,011
Other current assets	19	96,222	341,791	54,496
Cash and bank balances	22	4,124,776	3,156,999	503,356
		13,906,195	12,410,956	1,978,819
Assets classified as held for sale	23	–	69,496	11,080
		13,906,195	12,480,452	1,989,899
Total assets		19,151,019	17,923,673	2,857,773

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

Consolidated Statement of Financial Position

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

	Note	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	24	1,724,196	1,724,196	274,908
Preference shares	24	21	21	3
Statutory reserves	26	297,109	298,710	47,627
Capital reserves		2,932	2,932	467
Retained earnings		3,626,714	3,980,632	634,677
Other components of equity		(108,769)	(90,794)	(14,476)
Reserves of disposal groups classified as held for sale	23	–	(13,784)	(2,198)
Equity attributable to equity holders of the parent		5,542,203	5,901,913	941,008
Non-controlling interests		1,807,958	1,869,954	298,148
Total equity		7,350,161	7,771,867	1,239,156
Non-current liabilities				
Interest-bearing loans and borrowings	16(b)	144,883	111,422	17,765
Other liabilities	16(a)	830	–	–
Deferred tax liabilities	9	100,739	118,552	18,902
Deferred grants	17	318,583	326,062	51,988
		565,035	556,036	88,655
Current liabilities				
Trade and other payables	27	7,234,151	6,921,197	1,103,525
Interest-bearing loans and borrowings	16(b)	3,551,848	2,339,273	372,977
Provision for taxation		142,752	57,827	9,220
Other liabilities	16(a)	–	9,467	1,509
Provision for product warranty	28	307,072	268,006	42,731
		11,235,823	9,595,770	1,529,962
Total liabilities		11,800,858	10,151,806	1,618,617
Total equity and liabilities		19,151,019	17,923,673	2,857,773

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

Consolidated Statement of Changes in Equity

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Reserve of disposal groups classified as held for sale	Foreign currency translation reserve	Performance shares reserve	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2010	1,724,196	36	291,686	2,942	2,125,059	(9,661)	(74,150)	(85)	(10,692)	4,049,331	1,360,459	5,409,790
Profit for the year	–	–	–	–	1,117,297	–	–	–	–	1,117,297	332,615	1,449,912
Other comprehensive income	–	–	–	–	–	–	(15,249)	–	–	(15,249)	(6,835)	(22,084)
Total comprehensive income for the year	–	–	–	–	1,117,297	–	(15,249)	–	–	1,102,048	325,780	1,427,828
Transfer to statutory reserves	–	–	378	–	(378)	–	–	–	–	–	–	–
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	(44,631)	(44,631)
Dividends declared and paid (US$0.25 per share) (Note 25)	–	–	–	–	(63,078)	–	–	–	–	(63,078)	–	(63,078)
Liquidation of subsidiaries	–	–	–	(10)	10	–	–	–	–	–	(2,943)	(2,943)
Non-controlling interests arising from increase in share capital of subsidiaries	–	–	–	–	–	–	–	–	–	–	48,000	48,000
Conversion of NCCPS	–	(15)	–	–	–	–	–	–	–	(15)	15	–
Conversion of Series B RCPS	–	–	–	–	–	–	–	–	–	–	1,300	1,300
Realization of reserves upon disposal of assets classified as held for sale	–	–	–	–	–	9,661	–	–	–	9,661	–	9,661
At December 31, 2010	1,724,196	21	292,064	2,932	3,178,910	–	(89,399)	(85)	(10,692)	5,097,947	1,687,980	6,785,927

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

Consolidated Statement of Changes in Equity

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

	Attributable to the equity holders of the parent										
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve	Performance shares reserve	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2011	1,724,196	21	292,064	2,932	3,178,910	(89,399)	(85)	(10,692)	5,097,947	1,687,980	6,785,927
Profit for the year	–	–	–	–	818,532	–	–	–	818,532	253,970	1,072,502
Other comprehensive income	–	–	–	–	–	(8,593)	–	–	(8,593)	5,481	(3,112)
Total comprehensive income for the year	–	–	–	–	818,532	(8,593)	–	–	809,939	259,451	1,069,390
Transfer to statutory reserves	–	–	5,045	–	(5,045)	–	–	–	–	–	–
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	(139,473)	(139,473)
Dividends declared and paid (US$1.50 per share) (Note 25)	–	–	–	–	(365,683)	–	–	–	(365,683)	–	(365,683)
At December 31, 2011	1,724,196	21	297,109	2,932	3,626,714	(97,992)	(85)	(10,692)	5,542,203	1,807,958	7,350,161

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

Consolidated Statement of Changes in Equity

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

	Attributable to the equity holders of the parent												
	Issued capital (Note 24)	Preference shares (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Reserves of assets classified as held for sale	Foreign currency translation reserve	Performance shares reserve	Other reserve on transaction with non-controlling interests	Premium paid for acquisition of non-controlling interests	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2012	1,724,196	21	297,109	2,932	3,626,714	–	(97,992)	(85)	–	(10,692)	5,542,203	1,807,958	7,350,161
Profit for the year	–	–	–	–	567,333	–	–	–	–	–	567,333	204,005	771,338
Other comprehensive income	–	–	–	–	–	–	(5,410)	–	–	–	(5,410)	(3,684)	(9,094)
Total comprehensive income for the year	–	–	–	–	567,333	–	(5,410)	–	–	–	561,923	200,321	762,244
Transfer to statutory reserves	–	–	1,686	–	(1,686)	–	–	–	–	–	–	–	–
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(76,510)	(76,510)
Dividends declared and paid (US$0.90 per share) (Note 25)	–	–	–	–	(211,729)	–	–	–	–	–	(211,729)	–	(211,729)
Liquidation of a subsidiary	–	–	(85)	–	–	–	–	–	–	–	(85)	–	(85)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	10,692	10,692	(64,953)	(54,261)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(925)	(925)	(1,028)	(1,953)
Transaction with non-controlling interests	–	–	–	–	–	–	–	–	(166)	–	(166)	4,166	4,000
Reserves attributable to assets classified as held for sale	–	–	–	–	–	(13,784)	13,784	–	–	–	–	–	–
At December 31, 2012	1,724,196	21	298,710	2,932	3,980,632	(13,784)	(89,618)	(85)	(166)	(925)	5,901,913	1,869,954	7,771,867
US$'000	274,908	3	47,627	467	634,677	(2,198)	(14,289)	(14)	(26)	(147)	941,008	298,148	1,239,156

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

Consolidated Statement of Cash Flows

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Operating activities				
Profit before tax from continuing operations	1,765,203	1,299,282	913,576	145,662
Profit before tax from discontinued operations	12,655	–	–	–
Profit before tax	1,777,858	1,299,282	913,576	145,662
Adjustments to reconcile profit before tax to net cash flows:				
Allowance for doubtful debts (written back)/made (net)	(21,725)	2,343	(19,647)	(3,133)
Allowance for stock obsolescence written back	(111,763)	(12,412)	(24,026)	(3,831)
Depreciation of property, plant and equipment and investment property	275,136	301,557	335,337	53,467
Amortization of prepaid operating leases	11,004	27,286	13,148	2,096
Dividend income from held for trading investment	–	(1,656)	(3,245)	(517)
Impairment of property, plant and equipment and prepaid operating leases	1,372	252	8,026	1,280
Write-off of property, plant and equipment	2,447	159	–	–
Write-off of trade and other payables	5,249	–	–	–
Write back of impairment of investment in joint ventures	(10,936)	–	–	–
Share of net loss of associates and joint ventures	54,023	79,632	36,869	5,879
Exchange gain on financing activities	(19,975)	(1,599)	(9,932)	(1,584)
Loss on disposal of property, plant and equipment	33,670	9,830	24,623	3,926
Gain on disposal of prepaid operating leases	–	(10,678)	–	–
Gain on disposal of investment property	–	(5,908)	–	–
Gain on disposal of associates	(707)	–	–	–
(Gain)/loss on disposal of subsidiaries	(2,833)	–	9,436	1,504
Loss on disposal of other investments	261	–	498	79
Finance costs	130,446	156,174	213,019	33,964
Interest income	(61,719)	(53,159)	(99,685)	(15,894)
Profit from discontinued operations	(12,655)	–	–	–
Fair value (gain)/loss on held for trading investment	(17,123)	16,104	(8,237)	(1,313)
Fair value gain on available-for-sale investment	–	(10,983)	–	–

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

Consolidated Statement of Cash Flows

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

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Changes in working capital				
(Increase)/decrease in inventories	(409,118)	229,216	428,699	68,352
(Increase)/decrease in trade and other receivables	(1,762,932)	(2,447,246)	179,389	28,602
Increase/(decrease) in trade and other payables	1,739,923	(1,004,343)	(329,148)	(52,480)
Decrease/(increase) in balances with related parties	90,243	(13,187)	43,684	6,966
Increase in balances with holding company	(8,406)	(21)	–	–
Decrease in development properties	33,747	2,952	3,234	515
Cash flows from operating activities	1,715,487	(1,436,405)	1,715,618	273,540
Income taxes paid	(250,523)	(325,981)	(203,426)	(32,434)
Net cash flows from/(used in) operating activities	1,464,964	(1,762,386)	1,512,192	241,106
Investing activities				
Acquisition/additional investment in associates and joint ventures	(191,906)	(33,295)	–	–
Dividend received from held for trading investment	–	1,656	3,245	517
Dividends received from joint ventures	1,733	10,166	10,116	1,613
Interest received	61,719	53,159	99,685	15,894
Proceeds from disposal of other investments	169	–	6,786	1,083
Payment for prepaid operating leases	(66,300)	(16,768)	(8,561)	(1,365)
Proceeds from disposal of prepaid operating leases	–	18,800	–	–
Additions of intangible asset	(13,389)	(11,365)	(108,082)	(17,233)
Proceeds from disposal of property, plant and equipment	30,410	150,139	27,440	4,375
Purchase of property, plant and equipment	(629,626)	(807,274)	(643,457)	(102,594)
Proceeds from disposal of subsidiaries, net of cash disposed	1,902	–	38,056	6,068
Proceeds from disposal of assets classified as held for sale	302,655	–	–	–
Proceeds from disposal of associates	4,000	–	–	–
Proceeds from disposal of investment property	–	40,528	–	–
Proceeds from government grants	112,592	71,015	68,637	10,944
Net cash flows used in investing activities	(386,041)	(523,239)	(506,135)	(80,698)

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

Consolidated Statement of Cash Flows

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Financing activities				
Dividends paid to non-controlling interests	(44,631)	(139,473)	(76,510)	(12,199)
Dividends paid to equity holders of the parent	(63,078)	(365,683)	(211,729)	(33,758)
Interest paid	(146,014)	(179,802)	(231,523)	(36,914)
Payment of finance lease liabilities	(7,240)	(27,751)	–	–
Proceeds from borrowings	472,620	3,547,962	3,582,740	571,237
Repayment of borrowings	(926,275)	(477,328)	(4,835,507)	(770,980)
Capital contributions from non-controlling interests	48,000	–	4,000	638
(Placement)/withdrawal of fixed deposits pledged with banks for banking facilities	(10)	26	(240,455)	(38,338)
Acquisition of non-controlling interests in subsidiaries	–	–	(1,953)	(311)
Net cash flows (used in)/from financing activities	(666,628)	2,357,951	(2,010,937)	(320,625)
Net increase/(decrease) in cash and cash equivalents	412,295	72,326	(1,004,880)	(160,217)
Cash and cash equivalents at January 1	3,657,981	4,060,990	4,124,776	657,659
Effect of exchange rate changes on balances in foreign currencies	(9,286)	(8,540)	7,706	1,228
Cash and cash equivalents at December 31	4,060,990	4,124,776	3,127,602	498,670

Significant non-cash investing and financing transactions

For the years ended December 31, 2010, 2011 and 2012, certain customers settled their debts with trade bills amounting to Rmb 9,232 million, Rmb 13,879 million and Rmb 11,987 million respectively. These outstanding trade bills were classified as bills receivables in the financial statements.

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

1. Corporate information

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited and its subsidiaries (collectively, the "Group") for the year ended December 31, 2012 were authorized for issue in accordance with a resolution of the directors on April 22, 2013. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office is located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581.

1.2 Investment in Guangxi Yuchai Machinery Company Limited

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

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

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

Yuchai established three direct subsidiaries, Yuchai Machinery Monopoly Company Limited ("YMMC"), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ("YAMC") (previously known Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited) and Yuchai Express Guarantee Co., Ltd. ("YEGCL"). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants' purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As YEGCL is a non-core business of the Group, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL to one of the subsidiaries of State Holding Company for a consideration of Rmb 85.8 million, and resulted in a loss of Rmb 10.9 million. As at December 31, 2012, Yuchai held an equity interest of 71.83% and 97.14% respectively in YAMC and YMMC. As at December 31, 2012, YMMC had direct controlling interests in 29 subsidiaries (2011: 29 subsidiaries) which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC. During the year, one YMMC's subsidiary was liquidated and one new subsidiary was incorporated by YMMC (See Note 4).

1. Corporate information (cont'd)

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

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

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

In August 2012, Yuchai established a wholly-owned subsidiary, Guangxi Yuchai Accessories Manufacturing Company Limited ("GYAMC"). Upon incorporation of GYAMC, YAMC will gradually shift the business to GYAMC.

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

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

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

On May 22, 2012, further to discussion between Yuchai, Geely and Yinlun, in order to streamline the operations of both joint venture companies and to ensure that Yuchai's resources and costs are prudently allocated, a share swap agreement has been entered into between Yuchai, Geely and Yinlun such that Yuchai exits from Zhejiang Yuchai and focuses only on Jining Yuchai. The share swap involves Yuchai transferring its 52% shareholding in Zhejiang Yuchai to Yinlun, and Yinlun transferring its 18% shareholding in Jining Yuchai to Yuchai. Jining Yuchai has repaid Zhejiang Yuchai a total consideration of Rmb 24.8 million which Zhejiang Yuchai has previously paid to Zhejiang Haoqing Manufacturing Co., Ltd. in respect of development of technology for 4D20 diesel engines. Upon the completion of the share swap on June 7, 2012, Yuchai holds a 70% shareholding in Jining Yuchai with Geely maintaining its 30% shareholding in Jining Yuchai. The technology for the 4D20 diesel engines purchased from Geely will be entirely owned by Jining Yuchai. The share swap between Yuchai and Yinlun at historical cost resulted in a cash payment of Rmb 25 million from Yinlun to Yuchai. Management considers that terms and conditions of these two arrangements and their economic effects and account for these transactions as a single transaction in accordance with the relevant IFRS. The share swap transaction is considered as a disposal of a subsidiary and the gain on disposal is not material to the Group.

1. Corporate information (cont'd)

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

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

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

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

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

1.3 Investment in Thakral Corporation Ltd.

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

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

1. Corporate information (cont'd)

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

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

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

As of December 31, 2012, the Company's shareholding interest in TCL remained at 12.2%. The Company's investment in TCL was classified as held for trading, and was measured at fair value with changes in fair value recognized in other operating income/expenses in the income statement.

1.4 Investment in HL Global Enterprises Limited

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

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

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

1. Corporate information (cont'd)

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

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

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

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

As at December 31, 2011 and 2012, four directors, including the chairman, out of eight directors on the board of HLGE were appointed by the Company.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2012.

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

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

2.2 Basis of consolidation (cont'd)

Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if it results in a deficit balance.

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

2.3 Summary of significant accounting policies (cont'd)

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest 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 gain is recognized in profit or loss.

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

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

(b) Investments in associates

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

Under the equity method, the investment in the associate is 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 since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, 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 are eliminated to the extent of the interest in the associate.

The Group's share of profit of associates is shown on the face of the income statement and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

2.3 Summary of significant accounting policies (cont'd)

(c) Investments in joint ventures

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

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognizes the amount in the "Share of results of joint ventures" in the income statement.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. The difference between the carrying amount of the investment upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

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

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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

(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 retranslated 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 other comprehensive income 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 other comprehensive income.

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 other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

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.

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 income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

For the US Dollar convenience translation amounts included in the accompanying consolidated financial statements, the Rmb equivalent amounts have been translated into US Dollar at the rate of Rmb 6.2719 = US$1.00, the rate quoted by the People's Bank of China ("PBOC") at the close of business on March 8, 2013. No representation is made that the Rmb amounts could have been, or could be, converted into US Dollar at that rate or at any other rate prevailing on March 8, 2013 or any other date.

(f) Revenue recognition

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

Sale of goods

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

Rendering of services

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

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

2.3 Summary of significant accounting policies (cont'd)

(f) Revenue recognition (cont'd)

Interest income

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

Rental income

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

Dividends

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

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

(g) Taxes

Current income tax

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

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences 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;

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

2.3 Summary of significant accounting policies (cont'd)

(g) Taxes (cont'd)

Deferred tax **(cont'd)**

- 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 reassessed 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 other comprehensive income or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, 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)

(g) Taxes (cont'd)

Sales tax

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

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

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

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

(h) 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 costs, 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.

When the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

(i) Pensions and other post employment benefits

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

(j) Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Initial recognition and measurement (cont'd)

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

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has designated its remaining 12.2% shareholding interest in TCL as financial assets at fair value through profit or loss.

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Loans and receivables

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

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

The Group has a held-to-maturity investment amounting to Rmb 240.6 million as of December 31, 2012 (2011: Rmb Nil) (See Note 19).

Available-for-sale financial investments

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

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

Derecognition

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

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

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

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

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Impairment of financial assets (cont'd)

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Financial liabilities designated upon initial recognition as fair value through profit and loss are designated at the initial date of recognition, and only if the criteria of IAS 39 are satisfied. The Group has designated foreign exchange forward contract at fair value through profit or loss.

Loans and borrowings

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

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

Intra-group financial guarantees

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

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

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement (cont'd)

Derecognition

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

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.

Fair value of financial instruments

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

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

- Using recent arm's length market transactions

- Reference to the current fair value of another instrument that is substantially the same

- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 34.

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

2.3 Summary of significant accounting policies (cont'd)

(k) Property, plant and equipment

Property, plant and equipment 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 recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

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

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

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

2.3 Summary of significant accounting policies (cont'd)

(l) Leases

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

Prepaid operating lease

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

Group as a lessee

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

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

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

Sale and leaseback

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

Group as a lessor

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

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

2.3 Summary of significant accounting policies (cont'd)

(m) Borrowing costs

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

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

(n) Research and development costs

Research costs are expensed as incurred. The Group received research and development subsidies of Rmb 22,090 and Rmb 37,560 (US$5,989) for the years ended December 31, 2011 and 2012 respectively.

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

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

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

2.3 Summary of significant accounting policies (cont'd)

(n) Research and development costs (cont'd)

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually. As of December 31, 2012, capitalized development expenditures are not amortized because the intangible asset has not been completed and available for use or sale.

(o) Inventories

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

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

Net 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.

(p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. 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 to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset.

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

2.3 Summary of significant accounting policies (cont'd)

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

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 income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

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

Intangible assets

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

(q) Cash and cash equivalents

Cash and bank balances in the statement of financial position comprise cash at banks and on hand and short-term deposits.

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

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

2.3 Summary of significant accounting policies (cont'd)

(r) 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, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. Warranties extend for a duration (generally 12 months to 24 months) or mileage (generally 50,000 kilometers to 300,000 kilometers), whichever is the lower. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. In previous years, warranty claims have typically not been higher than the relevant provisions made in our consolidated statement of financial position. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

(s) Convertible preference shares

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

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

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

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

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

2.3 Summary of significant accounting policies (cont'd)

(t) Development properties

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

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

(u) Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is controlled or jointly controlled by a person identified in (a).

(vi) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2.3 Summary of significant accounting policies (cont'd)

(v) Segment reporting

For management purposes, the Group is organized into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.4 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of January 1, 2012:

- IAS 12 *Income Taxes* (Amendment) – *Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Amendment) – *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- IFRS 7 *Financial Instruments:* Disclosures – *Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 *Income Taxes* (Amendment) – *Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Amendment) – *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011. The amendment had no impact to the Group.

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

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

New and amended standards and interpretations (cont'd)

IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2.5 Standards issued but not yet effective

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

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment is effective for annual periods beginning on or after July 1, 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 *Employee Benefits* (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment is effective for annual periods beginning on or after January 1, 2013. The amendment has no impact on the Group.

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

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is effective for annual periods beginning on or after January 1, 2013. The amendment has no impact on the Group.

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

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

IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and are effective for annual periods beginning on or after January 1, 2014.

IFRS 1 *Government Loans – Amendments to IFRS 1*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendment has no impact on the Group.

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and are effective for annual periods beginning on or after January 1, 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

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

IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*

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

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment has no impact on the Group.

This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities*

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

***Investment Entities* (Amendments to IFRS 10 IFRS 12 and IAS 27)**

These amendments apply to a particular class of business that qualifies as investment entities. The amendments provide an exception to the consolidation requirements in IFRS 10 and require entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. These amendments are effective for annual periods beginning on or after January 1, 2014.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. No material impact is expected. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

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

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation will not have an impact on the Group.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property, Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments: Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after January 1, 2013.

3. Significant accounting judgments, estimates and assumptions

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

3.1 Judgments

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

Operating lease commitments – Group as lessor

The Group has leased out some of its assets, including surplus office and manufacturing buildings. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Consolidation of a special purpose entity

As disclosed in Note 1.4, HLGE established the Trust with the Trustee pursuant to the Trust Deed to facilitate the implementation of the HLGE 2006 Scheme.

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

HLGE will be entitled, from time to time, during the period commencing from the date of the Trust Deed and ending upon the termination of the Trust, to appoint a new trustee in substitution of the existing Trustee. HLGE is entitled to the benefit of any remaining funds, investments or assets which are placed under the control of the Trustee upon termination of the Trust. Based on the foregoing provisions, HLGE therefore consolidates the Trust as part of HLGE in its separate and consolidated financial statements. The Trust Shares are not regarded as treasury shares pursuant to the Singapore Companies Act, Chapter 50 and the Trustee has the power, *inter alia*, to vote or abstain from voting in respect of the Trust Shares at any general meeting of HLGE in its absolute discretion and to waive its right to receive dividends in respect of the Trust Shares as it deems fit. However, the Trust Shares are accounted for as treasury shares by HLGE as they are issued by HLGE and held by the Trust, which is considered as part of HLGE in accordance with the relevant IFRS.

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

3.2 Estimates and assumptions

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

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell 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 model. The cash flows are derived from the budget for the next eight years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14.

Impairment of property, plant and equipment

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

Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The carrying amounts of property, plant and equipment as of December 31, 2011 and 2012 are Rmb 3,748,233 and Rmb 4,016,593 (US$640,411) respectively.

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

An impairment loss of Rmb 8,026 (US$1,280) (2011: Rmb 252; 2010: Rmb 1,372) was charged to the consolidated income statement under cost of sales, selling, general and administrative expenses for the Group's property, plants and equipment.

The impairment for 2011 and 2012 was due to assets that were not in use.

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

3.2 Estimates and assumptions (cont'd)

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2011 and 2012 are Rmb 359,332 and Rmb 353,382 (US$56,343) respectively.

The Group has unrecognized tax loss carried forward amounting to Rmb 413,825 and Rmb 400,326 (US$63,828) as of December 31, 2011 and 2012 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by Rmb 68,238 (US$10,880) for year ended December 31, 2012 (2011: Rmb 70,473).

Fair value of financial instruments

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

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2011 and 2012 were Rmb 307,072 and Rmb 268,006 (US$42,731) respectively.

Withholding tax

The China's Unified Enterprise Income Tax Law ("CIT law") also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of December 31, 2011 and 2012 are Rmb 100,284 and Rmb 118,078 (US$18,827) respectively.

The Company estimated the withholding tax by taking into consideration the dividend payment history of Yuchai and the operating cash flow needs of the Company.

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

3.2 Estimates and assumptions (cont'd)

Derecognition of bills receivable

The Group sells bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 20.

Inventory provision

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2011 and 2012 were Rmb 150,477 and Rmb 126,398 (US$20,153) respectively.

Accounts receivable provisions

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2011 and 2012 were Rmb 75,155 and Rmb 44,304 (US$7,064) respectively.

Development costs

Development costs are capitalized in accordance with the accounting policy in Note 2.3(n). Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation from the project, discount rate to be applied and the expected period of benefits. The carrying amount of capitalized development costs as of December 31, 2011 and 2012 were Rmb 24,754 and Rmb 135,411 (US$21,590) respectively.

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

4. Investments in subsidiaries

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2011	31.12.2012
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited	People's Republic of China	74.2	74.2
Guangxi Yuchai Machinery Monopoly Development Company Limited	People's Republic of China	54.9	54.9
Xiamen Yuchai Diesel Engines Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited (1)	People's Republic of China	39.7	53.5
Zhejiang Yuchai Sanli Engine Company Limited (1)	People's Republic of China	39.7	–
HL Global Enterprises Limited (2)	Singapore	49.4	50.1

(1) The Company considers these companies as subsidiaries as it is able to govern the financial and operating policies of these companies through Yuchai's equity interest and its ability to control the companies' equity interest. On May 22, 2012, a share swap agreement has been entered into such that Yuchai exists from Zhejiang Yuchai and focuses only on Jining Yuchai (See Note 1.2 (a)). The share swap transaction is considered as disposal of a subsidiary and the disposal was completed on June 7, 2012.

(2) During the year, the Company converted 13,957,233 of Series A RCPS (2011: 35,149,000 of Series B RCPS) into ordinary shares in the capital of HLGE. As a result, the Company's interest in HLGE increased to 50.1% (2011: 49.4%), based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust (See Note 1.4).

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

4. Investments in subsidiaries (cont'd)

Disposal of subsidiaries

On June 7, 2012, Yuchai disposed of its 39.7% of effective equity interest in Zhejiang Yuchai, and, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL. The disposal considerations were settled in cash, net of liabilities and share swap (See Note 1.2).

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

	31.12.2012	31.12.2012
	Rmb'000	US$'000
Property, plant and equipment	69,488	11,079
Prepaid operating leases	35,363	5,638
Deferred tax assets	5,000	797
Other receivables	86,522	13,795
Inventories	627	100
Prepayments	24,784	3,952
Premium paid for acquisition of non-controlling interests	10,692	1,705
Cash and cash equivalents	7,545	1,203
	240,021	38,269
Trade and other payables	(50,066)	(7,983)
Provision for taxation	(4,745)	(757)
Non-controlling interests	(64,953)	(10,356)
Carrying value of net assets	120,257	19,173
Loss on disposal of subsidiaries (See Note 8.2(b))	(9,436)	(1,504)
Total consideration	110,821	17,669
Cash and cash equivalents of the subsidiaries	(7,545)	(1,203)
Amount due to acquiree	(65,220)	(10,398)
Net cash inflow on disposal of subsidiaries	38,056	6,068

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

4. Investments in subsidiaries (cont'd)

Acquisition of non-controlling interests

On January 6, 2012, HLGE, through its wholly-owned subsidiary, LKN Development Pte Ltd, acquired an additional 48% of equity interest in Victory Heights Sdn Bhd ("Victory Heights") from its non-controlling interests for a cash consideration of approximately S$1.00 (US$0.80). Following the completion of this acquisition, Victory Heights becomes a wholly-owned subsidiary of HLGE.

In May 2012, Yuchai's subsidiary, YMMC acquired remaining 49% of equity interest in Guangzhou Tongju Commerce and Trade Company Limited ("Guangzhou Tongju") from its non-controlling interests at an aggregate cash consideration of Rmb 1.5 million (US$0.2 million). In the same month, YMMC also acquired remaining 40% of equity interests in Shenyang Yuchai Marketing Company Limited ("Shenyang Yuchai') from its non-controlling interests at a cash consideration of Rmb 0.4 million (US$0.1 million). Following the completion of these acquisitions, Guangzhou Tongju and Shenyang Yuchai become wholly-owned subsidiaries of YMMC.

The following summarizes the effect of the changes in the Group's ownership interest on the equity attributable to equity holders of the parent:

	31.12.2012	31.12.2012
	Rmb'000	US$'000
Consideration paid for acquisition of non-controlling interests	1,953	311
Decrease in non-controlling interests	(1,028)	(164)
Decrease in equity attributable to equity holders of the parent	925	147

Incorporation of new subsidiaries

On November 5, 2012, Xuzhou Yuchai Machinery Industry Development Co., Ltd ("Xuzhou Yuchai") was incorporated in the PRC. YMMC and its subsidiary, Yulin Yuchai Machinery Industry Development Co., Ltd hold respectively 90% and 10% of equity interests in Xuzhou Yuchai, thereby making the latter a subsidiary of YMMC. The registered and paid-up capital of Xuzhou Yuchai of Rmb 1 million was satisfied in cash and funded through internal sources. The principal activities of Xuzhou Yuchai are those relating to the distribution and sales of spare parts of diesel engines, construction machinery, generator sets, agricultural machinery, tires, rubber products, lubricating oil and related products.

On December 28, 2012, Yulin Hotel Company has incorporated a new wholly-owned subsidiary, Guangxi Shang Lin Trading Co., Ltd ("Guangxi Shanglin") in the PRC. The registered and paid-up capital of Guangxi Shanglin of Rmb 2 million was satisfied in cash and funded through internal sources. The principal activities of Guangxi Shanglin are those relating to food packaging, general merchandise business, wholesale and retail office supplies, etc.

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

4. Investments in subsidiaries (cont'd)

Dilution of shareholdings

In July 2012, YMMC and its subsidiary, Beijing Jingdu Trade Company Limited ("Beijing Jingdu") has disposed of their equity interests representing 30% and 10% respectively of the registered capital of YMMC's subsidiary, Shanghai Yuchai Jidian Marketing Company Limited ("Shanghai Jidian") to Chang Shu City Dong Feng Cars Accessories Co., Ltd ("Chang Shu"), an unrelated party, for an aggregate cash consideration of Rmb 0.8 million (US$0.1 million) at cost. Subsequently, Shanghai Jidian issued additional ordinary shares to YMMC and Chang Shu amounted to Rmb 4.8 million (US$0.8 million) and Rmb 3.2 million (US$0.5 million) respectively. After these transactions, YMMC's equity interest in Shanghai Jidian has been reduced from 90% to 60%, Chang Shu's equity interest in Shanghai Jidian has been increased to 40%, while Beijing Jingdu no longer has any interest in Shanghai Jidian.

The following summarizes the effect of the change in the Group's ownership interest on the equity attributable to equity holders of the parent:

	31.12.2012	31.12.2012
	Rmb'000	US$'000
Consideration paid by non-controlling interest	4,000	638
Increase in non-controlling interests	(4,166)	(664)
Decrease in equity attributable to equity holders of the parent	166	26

5. Investment in associates

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Initial cost			
At January 1	22,797	22,797	3,635
Reclassification to assets classified as held for sale (See Note 23)	–	(18,155)	(2,895)
At December 31	22,797	4,642	740
Share of post acquisition reserves			
At January 1	15,813	15,204	2,424
Share of results, net of tax	1,519	2,372	378
Share of foreign currency translation	(2,128)	734	117
Reclassification to assets classified as held for sale (See Note 23)	–	(20,841)	(3,322)
At December 31	15,204	(2,531)	(403)
Investment in associates	38,001	2,111	337

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

5. Investment in associates (cont'd)

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest 31.12.2011 %	Group's effective equity interest 31.12.2012 %
Held by subsidiaries				
Scientex Park (M) Sdn Bhd [(1)]	Property investment and development	Malaysia	13.8	14.0
Sinjori Sdn Bhd [(1)]	Property investment and development	Malaysia	13.8	14.0
Yuchai Quan Xing Co., Ltd. [(2)]	Manufacture spare part and sales of auto spare part, diesel engine & spare part, metallic materials, generator & spare part, chemical products (exclude dangerous goods), lubricating oil	People's Republic of China	14.8	14.8
Yuchai Property Management Co., Ltd. [(3)]	Property management	People's Republic of China	22.3	22.3

(1) The Company has significant influence in these entities through HLGE who held direct equity interests of 28% interest in these entities. As of December 31, 2012, the investment in Scientex Park (M) Sdn Bhd is presented as "Assets classified as held for sale" (See Note 23).

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

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

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

5. Investment in associates (cont'd)

The summarized financial information on the Group's associates, including assets classified as held for sale, which is not adjusted for the percentage of ownership held by the Group, is as follows:

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Assets and liabilities			
Total assets	177,110	180,629	28,800
Total liabilities	(39,510)	(31,493)	(5,021)
Net assets	137,600	149,136	23,779

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Results				
Revenue	105,855	120,086	141,618	22,580
(Loss)/profit after taxation	(719)	4,976	9,010	1,437

6. Investment in joint ventures

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Unquoted equity shares, at cost			
At January 1	650,454	683,749	109,018
Addition	33,295	–	–
Reclassification to assets classified as held for sale (See Note 23)	–	(148,805)	(23,726)
At December 31	683,749	534,944	85,292
Share of post acquisition reserves and impairment losses			
At January 1	(136,141)	(227,004)	(36,194)
Share of results, net of tax (1)	(81,151)	(39,241)	(6,257)
Dividend received	(10,166)	(10,116)	(1,613)
Reclassified to assets classified as held for sale (See Note 23)	–	118,305	18,863
Others	(2,305)	1,088	173
Translation adjustment	2,759	(1,456)	(231)
At December 31	(227,004)	(158,424)	(25,259)
Carrying amount of the investment	456,745	376,520	60,033

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

6. Investment in joint ventures (cont'd)

[(1)] Share of results, net of tax is composed of:

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Share of joint venture losses	(11,375)	(12,639)	(36,437)	(5,810)
Impairment of investment in joint ventures	(2,117)	(53,540)	–	–
Fair value adjustments arising from purchase price allocation	(40,410)	(14,972)	(2,804)	(447)
Share of results after tax	(53,902)	(81,151)	(39,241)	(6,257)

The Group has interests in the following joint ventures:

Name of company	Percentage of interest held 31.12.2011 %	31.12.2012 %	Principal activities
Held by subsidiaries			
Augustland Hotel Sdn Bhd	45	45	Hotel development and operation
Copthorne Hotel Qingdao Co., Ltd.	60	60	Owns and operates a hotel in Qingdao, PRC
Shanghai Equatorial Hotel Management Co., Ltd.	49	49	Hotel management and hotel consultancy
Shanghai International Equatorial Hotel Company Ltd.	50	50	Owns and operates a hotel and club in Shanghai, PRC
Y&C Engine Co., Ltd.	45	45	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services
Yuchai Remanufacturing Services Company Ltd.	51	51	Remanufacture and sale of automobile parts, diesel engines and components

The Group has included in its consolidated financial statements its share of assets and liabilities incurred by the joint ventures and its share of the results of the joint ventures using equity method. As of December 31, 2012, the investment in Shanghai International Equatorial Hotel Company Ltd. is presented as "Assets classified as held for sale" (See Note 23).

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

6. Investment in joint ventures (cont'd)

The summarized financial information, including assets classified as held for sale, on the Group's share is as follows:

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Assets and liabilities			
Current assets	269,293	269,345	42,945
Non-current assets	497,520	449,083	71,602
Current liabilities	(152,237)	(244,788)	(39,029)
Non-current liabilities	(226,192)	(145,556)	(23,208)
Net assets	388,384	328,084	52,310
Group's share of joint ventures' contingent liabilities	12,836	12,836	2,047
Group's share of joint ventures' capital commitment that are approved but not contracted for	–	2,004	320

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Results				
Revenue	150,161	212,401	247,983	39,539
Expenses	(158,130)	(223,811)	(281,570)	(44,894)
Taxation	(3,406)	(1,229)	(2,850)	(455)
Loss after taxation	(11,375)	(12,639)	(36,437)	(5,810)

According to Qingdao Municipal Government's regulation, all hotels in Qingdao, the People's Republic of China, are imposed for tourism development levy and hotel augmentation levy which are equivalent to 1% of total revenue and 3% of room revenue respectively. According to releases made by the Qingdao Local Taxation Bureau, the tourism development levy and the hotel augmentation levy were withdrawn effective from January 1, 2009 and September 1, 2010 respectively. As at December 31, 2012, the estimated tourism development levy and hotel augmentation levy payable by the Group's joint venture in Qingdao were Rmb 3,748 (US$598) (2011: Rmb 3,748) and Rmb 9,088 (US$1,449) (2011: Rmb 9,088) respectively. The joint venture, together with other hotel owners in Qingdao is currently negotiating with the Qingdao Municipal Government to waive such levies. The joint venture is of the view that the authority is unlikely to collect such levies. Hence, the above levies have not been provided in the accounts of the joint venture.

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

7. Revenue

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Sale of goods	16,138,580	15,378,190	13,381,025	2,133,488
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	41,948	61,813	63,290	10,091
Revenue from sale of development properties	24,278	3,821	4,640	740
Rental income	3,378	604	534	85
	69,604	66,238	68,464	10,916
Revenue	16,208,184	15,444,428	13,449,489	2,144,404

8.1 Depreciation and amortization, sales commissions and shipping and handling expenses

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Cost of goods sold	193,504	234,486	254,454	40,571
Research and development expenses	22,253	24,202	27,774	4,428
Selling, general and administrative expenses	70,383	70,155	66,257	10,564
	286,140	328,843	348,485	55,563

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Selling, general and administrative expenses	160,283	113,322	63,795	10,172

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Selling, general and administrative expenses	248,790	193,570	187,152	29,840

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

8.2 (a) Other operating income

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Interest income	61,719	53,159	99,685	15,894
Foreign exchange gain, net	19,975	1,599	19,400	3,093
Dividend income from held for trading investment	–	1,656	3,245	517
Gain on disposal of associates	707	–	–	–
Gain on disposal of subsidiaries	2,833	–	–	–
Gain on disposal of prepaid operating leases	–	10,678	–	–
Fair value gain on held for trading investment	17,123	–	8,237	1,313
Fair value gain on available-for-sale investment	–	10,983	–	–
Gain on disposal of investment property	–	5,908	–	–
Write back of impairment of investment in joint ventures	10,936	–	–	–
Government grant income	11,129	18,420	28,534	4,549
Bad debts recovered	–	–	6,906	1,101
Others, net	4,653	–	10,402	1,659
	129,075	102,403	176,409	28,126

8.2 (b) Other operating expenses

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Loss on disposal of property, plant and equipment	(33,670)	(9,830)	(24,623)	(3,926)
Loss on disposal of subsidiaries	–	–	(9,436)	(1,504)
Loss on disposal of other investments	–	–	(498)	(79)
Fair value loss on held for trading investment	–	(16,104)	–	–
Fair value loss on foreign exchange forward contract	–	–	(9,467)	(1,509)
Write-off of trade and other payables	(5,249)	–	–	–
Others, net	(2,528)	(3,391)	(35)	(6)
	(41,447)	(29,325)	(44,059)	(7,024)

8.3 Research and development costs

Research and development costs recognized as an expense in the income statement amount to Rmb 373,732 (US$59,588) (2011: Rmb 328,140; 2010: Rmb 324,123).

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

8.4 Finance costs

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Interest expense for:				
Bank term loans	31,302	33,693	70,557	11,250
Finance lease	1,649	–	–	–
Bills discounting	109,260	73,651	82,585	13,167
Corporate bonds	–	64,175	87,269	13,914
Bank charges	2,911	6,869	5,946	948
Less:				
Borrowing costs capitalized	(14,676)	(22,214)	(33,338)	(5,315)
	130,446	156,174	213,019	33,964

The rate used to determine the amount of borrowing costs eligible for capitalization was 5.61% (2011: 5.43%; 2010: 5.00%), which is the effective interest rate of the borrowings.

8.5 Staff costs

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Wages and salaries	874,129	741,036	747,401	119,167
Contribution to defined contribution plans [(i)]	189,564	240,590	254,101	40,514
Executive bonuses	98,239	67,347	43,773	6,979
Staff welfare	56,780	59,142	55,033	8,775
Others	1,412	1,888	5,094	812
	1,220,124	1,110,003	1,105,402	176,247

Note:

[(i)] As stipulated by the regulations of the PRC, Yuchai and its subsidiaries participate in defined contribution retirement plans organized by Guangxi Regional Government and Beijing City Government for its staff. All staff are entitled to an annual pension equal to a fixed proportion of their final basic salary amount at their retirement date. For the years ended December 31, 2012, 2011 and 2010, Yuchai and its subsidiaries were required to make contributions to the retirement plan at a rate of 20.0% of the basic salary of their staff. Expenses incurred in connection with the plan were Rmb 254,101 (US$40,514) (2011: Rmb 239,253; 2010: Rmb 187,900).

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

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

9. Income tax

Income tax expense in the consolidated income statement consists of:

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Current income tax				
Current income tax charge	332,524	266,044	118,421	18,881
Adjustments in respect of current income tax of previous year	3,257	1,607	80	13
Deferred tax				
Relating to origination and reversal of temporary differences	(5,400)	(40,871)	23,737	3,785
Adjustments in respect of deferred tax of previous year	(2,435)	–	–	–
Income tax expense reported in the income statement	327,946	226,780	142,238	22,679

Income tax expense reported in the consolidated income statement differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2010, 2011 and 2012 for the following reasons:

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Accounting profit before tax from continuing operations	1,765,203	1,299,282	913,576	145,662
Computed tax expense of 15%	264,780	194,892	137,036	21,849
Adjustments resulting from:				
Non-deductible expenses	10,432	7,298	11,722	1,869
Tax-exempt income	(2,994)	(310)	(1,885)	(301)
Utilization of deferred tax benefits previously not recognized	(1,792)	–	(3,133)	(500)
Deferred tax benefits not recognized	3,381	1,818	182	30
Tax credits for research and development expense	(17,556)	(26,625)	(19,884)	(3,170)
Tax rate differential	25,027	24,070	(178)	(29)
Under provision in respect of previous years				
- current	3,257	1,607	80	13
- deferred	(2,435)	–	–	–
Withholding tax expense	45,846	23,492	17,794	2,837
Others	–	538	504	81
Total	327,946	226,780	142,238	22,679

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

9. Income tax (cont'd)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated income statement			
	31.12.2011	31.12.2012	31.12.2012	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000	Rmb'000	Rmb'000	Rmb'000	US$'000
Deferred tax liabilities							
Accelerated tax depreciation	(42)	(42)	(7)	347	–	–	–
Unremitted earnings from overseas source income	(422)	(441)	(70)	–	–	–	–
Expenditure currently deferred for tax purpose	9	9	2	100	–	–	–
PRC withholding tax on dividend income	(100,284)	(118,078)	(18,827)	(45,846)	(23,492)	(17,794)	(2,837)
	(100,739)	(118,552)	(18,902)	(45,399)	(23,492)	(17,794)	(2,837)
Deferred tax assets							
Accelerated accounting depreciation	7,523	7,860	1,253	(1,090)	(895)	337	53
Write down of inventories	33,259	31,104	4,959	(9,086)	(2,845)	(2,155)	(343)
Allowance for doubtful accounts	10,152	6,554	1,045	(5,168)	280	(3,598)	(574)
Accruals	230,968	214,109	34,138	71,242	38,795	(16,859)	(2,688)
Tax value of loss carried forward	830	–	–	1,307	(1,685)	(823)	(131)
Deferred income	69,014	84,757	13,514	(5,643)	33,345	15,743	2,510
Others	7,586	8,998	1,434	1,672	(2,632)	1,412	225
	359,332	353,382	56,343	53,234	64,363	(5,943)	(948)

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

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

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

9. Income tax (cont'd)

Deferred tax (cont'd)

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to us, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company recognizes a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises. As at December 31, 2012, the provision for withholding tax payable was Rmb 118,078 (US$18,827) (2011: Rmb 100,284).

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Deferred tax assets	359,332	353,382	56,343
Deferred tax liabilities	(100,739)	(118,552)	(18,902)
	258,593	234,830	37,441

10. Discontinued operations

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

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

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

Upon the disposal of TCL shares, the Company's shareholding interest in TCL has reduced from 34.4% to 12.2%. Meanwhile, the Company's representation in the board of directors of TCL also reduced to one out of eight directors on the board of TCL. As of December 31, 2012, the Company does not exercise significant influence over the operating and financial policies of TCL. The Company's investment in TCL is classified as held for trading investment (See Note 19) as they are held for the purpose of selling in the near term. The Company's investment in TCL is measured at fair value with changes in fair value recognized in other operating income/(expenses) in the income statement.

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

10. Discontinued operations (cont'd)

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Profit from discontinued operations				
- Profit before tax	–	–	–	–
- Gain on disposal	12,655	–	–	–
- Taxation	–	–	–	–
	12,655	–	–	–

The net cash flows incurred by TCL are as follows:

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Operating	–	–	–	–
Investing	302,655	–	–	–
Financing	–	–	–	–
	302,655	–	–	–

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb	Rmb	Rmb	US$
Earnings per share				
Basic and diluted, from discontinued operations	0.34	–	–	–

11. Earnings per share

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

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

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

11. Earnings per share (cont'd)

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Net profit attributable to ordinary equity holders of the parent from continuing operations	1,104,642	818,532	567,333	90,456
Net profit attributable to ordinary equity holders of the parent from discontinued operations	12,655	–	–	–
Net profit attributable to ordinary equity holders of the parent for basic earnings	1,117,297	818,532	567,333	90,456
Weighted average number of ordinary shares for basic earnings per share	37,267,673	37,267,673	37,267,673	37,267,673

There were no potentially dilutive common shares in any of the years ended December 31, 2012, 2011 and 2010.

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

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Net profit attributable to ordinary equity holders of the parent from discontinued operations for basic and diluted earnings per share calculations	12,655	–	–	–

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

12. Property, plant and equipment

	Freehold land	Leasehold land, buildings & improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost							
At January 1, 2011	634	1,587,603	570,476	3,009,398	130,444	94,127	5,392,682
Additions	–	11,965	845,870	43,375	9,768	20,786	931,764
Disposals	–	(157,398)	–	(78,276)	(9,657)	(6,605)	(251,936)
Transfers	–	75,534	(538,332)	450,566	10,755	1,477	–
Write-off	–	(174)	(2,321)	(7,985)	(4,722)	–	(15,202)
Translation difference	(38)	1,723	–	571	(68)	(36)	2,152
At December 31, 2011 and January 1, 2012	596	1,519,253	875,693	3,417,649	136,520	109,749	6,059,460
Additions	–	123,754	571,599	22,465	10,809	8,100	736,727
Disposals	–	(57,654)	–	(50,652)	(16,483)	(10,222)	(135,011)
Reduced due to disposal of subsidiaries	–	–	(61,581)	(7,961)	(1,594)	(75)	(71,211)
Transfers	–	38,609	(393,075)	345,167	6,583	2,716	–
Write-off	–	–	(1,503)	–	(16)	–	(1,519)
Translation difference	16	(774)	–	(287)	(143)	(4)	(1,192)
At December 31, 2012	612	1,623,188	991,133	3,726,381	135,676	110,264	6,587,254
Accumulated depreciation and impairment							
At January 1, 2011	634	358,501	11,168	1,621,673	79,041	45,363	2,116,380
Charge for the year	–	53,696	–	222,385	15,151	9,962	301,194
Disposals	–	(41,484)	–	(37,590)	(8,488)	(4,147)	(91,709)
Write-off	–	(87)	(2,321)	(7,964)	(4,671)	–	(15,043)
Impairment loss	–	–	(3,102)	3,275	–	79	252
Translation difference	(38)	359	–	80	(227)	(21)	153
At December 31, 2011 and January 1, 2012	596	370,985	5,745	1,801,859	80,806	51,236	2,311,227
Charge for the year	–	52,833	–	258,947	15,327	10,805	337,912*
Disposals	–	(25,906)	–	(34,386)	(14,311)	(8,346)	(82,949)
Reduced due to disposal of subsidiaries	–	–	–	(425)	(1,257)	(42)	(1,724)
Transfer	–	–	–	296	(161)	(135)	–
Write-off	–	–	(1,503)	–	(16)	–	(1,519)
Impairment loss	–	547	294	7,185	–	–	8,026
Translation difference	16	(177)	–	(79)	(70)	(2)	(312)
At December 31, 2012	612	398,282	4,536	2,033,397	80,318	53,516	2,570,661
Net book value							
At December 31, 2011	–	1,148,268	869,948	1,615,790	55,714	58,513	3,748,233
At December 31, 2012	–	1,224,906	986,597	1,692,984	55,358	56,748	4,016,593
US$'000	–	195,301	157,304	269,932	8,826	9,048	640,411

* An amount of Rmb 2,575 (US$411) (2011: Rmb Nil) was capitalized as intangible assets.

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

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

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

As of December 31, 2012, construction in progress with a carrying amount of Rmb 42.3 million (US$6.7 million) (2011: Rmb Nil) are pledged to secure bank facilities.

Capitalized borrowing costs

The amount of borrowing costs capitalized during the year ended December 31, 2012 was Rmb 33,338 (US$5,315) (2011: Rmb 22,214). The rate used to determine the amount of borrowing costs eligible for capitalization was 5.61% (2011: 5.43%) which is the effective interest rate of the specific and any applicable general borrowings that is used for the purpose of obtaining the qualifying assets.

13. Prepaid operating leases

Yuchai and its subsidiaries are granted the land use rights of 15 to 50 years in respect of such land. Prepaid operating leases represent those amounts paid for land use rights to the PRC government. The prepaid operating leases charged to expense were Rmb 27,286 and Rmb 13,148 (US$2,096) for the year ended December 31, 2011 and 2012, respectively.

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Current	11,292	12,614	2,011
Non-current	387,839	346,568	55,257
Total	399,131	359,182	57,268
Gross payments for prepaid operating leases	487,729	457,963	73,018
Less: Amounts charged to expense	(88,598)	(101,746)	(16,223)
Disposal of a subsidiary	–	2,965	473
Total	399,131	359,182	57,268

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

14. Goodwill

	Rmb'000	US$'000
Cost		
At January 1, 2011, December 31, 2011 and December 31, 2012	218,311	34,808
Accumulated impairment		
At January 1, 2011, December 31, 2011 and December 31, 2012	5,675	905
Net book value		
At December 31, 2011 and December 31, 2012	212,636	33,903

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

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

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

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Yuchai	212,636	212,636	33,903

Yuchai unit

The Group performed its annual impairment test as at December 31, 2012 and 2011. The recoverable amount of the unit is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period. The business of Yuchai is stable since the Group had control since 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections is 12.73% (2011: 13.93%). No impairment was identified for this unit.

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

14. Goodwill (cont'd)

Key assumptions used in value in use calculations

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

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

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

Discount rate – Discount rate reflects management's estimate of the risks specific to the cash-generating unit and was 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 was 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 7.8% and 8.6% for 2012 and 2011 respectively.

Sensitivity to changes in assumptions

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

15. Intangible assets

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Development costs	24,754	135,411	21,590

During the financial year, the Group capitalized Rmb 110,657 (US$17,643) (2011: Rmb 11,365) of development expenditure for intellectual property right, technical skill and knowledge of building a new technology of heavy duty diesel engines.

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

16. Other financial liabilities

(a) Other liabilities

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Current			
Financial liabilities at fair value through profit or loss			
Derivatives not designated as hedges			
Foreign exchange forward contract	–	9,467	1,509
Non-current			
Other financial liabilities at amortized cost			
Preference shares	830	–	–

Foreign exchange forward contract

On June 11, 2012, Yuchai entered into a non-deliverable forward foreign exchange contract ("NDF") with Industrial and Commercial Bank of China ("ICBC") to purchase US$36.8 million at the forward exchange rate (USD/GBP) of 1.5525 on June 11, 2013. The Group accounted this NDF at fair value through profit or loss (See Note 19).

Series A redeemable convertible preference shares ("Series A RCPS")

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

(a) Non-cumulative dividend which shall accrue for each Series A RCPS on a daily basis at 0.1% per annum of the amount equivalent to S$0.69 per outstanding Series A RCPS. Series A RCPS rank *pari passu* with the Series B RCPS and in priority to all other classes of equity securities;

(b) HLGE shall redeem all or part of the Series A RCPS upon the occurrence of any of the relevant redemption events as defined in the debt restructuring agreement ("DRA") entered into by HLGE and certain of its subsidiaries with certain of their bankers and other financial lenders on March 16, 2001;

(c) Upon the passing of a special resolution at a meeting of the holders of the Series A RCPS convened during the conversion period commencing from the date of issue (March 17, 2005) of such Series A RCPS and expiring 10 years thereafter to approve the conversion of all outstanding Series A RCPS, the Company shall convert all (but not some only) of the outstanding Series A RCPS at the conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA; and

(d) HLGE shall redeem all the outstanding Series A RCPS on the tenth anniversary of the issue date of the Series A RCPS.

16. Other financial liabilities (cont'd)

(a) Other liabilities (cont'd)

Series B redeemable convertible preference shares ("Series B RCPS")

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

(a) Non-cumulative dividend which shall accrue for each Series B RCPS on a daily basis at 0.1% per annum of the amount equivalent to S$0.16 per outstanding Series B RCPS. Series B RCPS rank *pari passu* with the Series A RCPS and in priority to all other classes of equity securities;

(b) HLGE shall redeem all or part of the Series B RCPS upon the occurrence of any of the relevant redemption events as defined in the DRA;

(c) Upon the passing of a special resolution at a meeting of the holders of the Series B RCPS convened during the conversion period commencing from the date of issue (March 17, 2005) of such Series B preference shares and expiring 5 years thereafter to approve the conversion of all outstanding Series B RCPS, the Company shall convert all (but not some only) of the outstanding Series B RCPS at the conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA; and

(d) On the market day immediately following the fifth anniversary of the date of issue of the Series B RCPS, all Series B RCPS which remain unconverted or unredeemed shall be mandatorily converted into ordinary shares of HLGE at conversion ratio of 1:1 and rounded down to the nearest whole number for fractions upon conversion subject to adjustments pursuant to the DRA.

(e) If the conversion of all or any part of the Series B RCPS held by any holder of Series B RCPS (i) is not permitted by law or regulations or (ii) will trigger any obligation to make a general offer by such holder or its concert parties under The Singapore Code on Take-overs and Mergers, such holder will be permitted to convert only such number of Series B RCPS held by it as will not (i) result in the breach of such law or regulations or (ii) trigger any take-over obligation on the Mandatory Conversion Date. Such holder will have the option to convert the remaining number of Series B RCPS at the Series B RCPS Conversion Ratio into Ordinary Shares over a period of 22 months commencing after the Mandatory Conversion Date, without the requirement of the passing of a Series B RCPS Special Resolution, by giving a notice in writing to HLGE.

During the year ended December 31, 2012, all the outstanding Series A RCPS has been fully converted into ordinary shares in the capital of HLGE, and the remaining 24,189,170 Series B RCPS held by the Company has been transferred to the Trustee and subsequently converted into ordinary shares in the capital of HLGE (See Note 1.4).

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

16. Other financial liabilities (cont'd)

(b) Interest-bearing loans and borrowings

	Effective interest rate	Maturity	31.12.2011
	%		Rmb'000
Current			
Renminbi denominated loans	5.39	2012	3,551,848
			3,551,848
Non-current			
Renminbi denominated loans	5.24	2013	96,114
Singapore Dollar denominated loans	1.38	2014	48,769
			144,883

	Effective interest rate	Maturity	31.12.2012	31.12.2012
	%		Rmb'000	US$'000
Current				
Renminbi denominated loans	5.00	2013	2,072,069	330,373
United State Dollar denominated loans	4.00	2013	261,598	41,710
Euro denominated loans	2.46	2013	5,606	894
			2,339,273	372,977
Non-current				
Renminbi denominated loans	8.28	2016	60,000	9,566
Singapore Dollar denominated loans	1.29	2014	51,422	8,199
			111,422	17,765

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

S$10.0 million credit facility with DBS Bank Ltd. ("DBS")

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

16. Other financial liabilities (cont'd)

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

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

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

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

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

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

On March 11, 2011, the Company entered into a new facility agreement with BOTM to refinance the existing revolving credit facility. The new unsecured, multi-currency revolving credit facility has a committed aggregated value of S$30.0 million with three-year duration from March 18, 2011 to March 18, 2014. The new facility will be used to finance the Company's long-term general working capital requirements. Among other things, the terms of the facility require that 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.

16. Other financial liabilities (cont'd)

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

US$30.0 million credit facility with Sumitomo Mitsui Banking Corporation, Singapore Branch ("Sumitomo")

On March 30, 2010, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US$30.0 million to refinance the US$40.0 million facility that was due to mature on March 30, 2010. The facility is available for one year from the date of the facility agreement and will be 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 our total consolidated net debt (as defined in the agreement) to tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

On March 18, 2011, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for an aggregate of US$30.0 million to refinance the US$30.0 million facility that was due to mature on March 25, 2011. The facility is available for three years from the date of the facility agreement and will be 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 our total consolidated net debt (as defined in the agreement) to consolidated tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

Yuchai Rmb 1.7 billion short-term financing bonds

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

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

16. Other financial liabilities (cont'd)

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

Yuchai Rmb 690 million short-term financing bonds

Yuchai received approval from NAFMII for the issuance of RMB-denominated unsecured short-term financing bonds amounting to Rmb 690 million. The bonds were issued on November 22, 2011 and matured on November 23, 2012. The par value and issue price of each bond was Rmb 100. The bonds bore a fixed annual interest rate of 5.77%. Subscription to and trading of the bonds was only available in China to institutional investors of China's National Inter-bank Bond Market. All the proceeds from the issuance of the bonds were used by Yuchai as working capital. In November 2012, the bonds amounting to Rmb 690 million were fully repaid upon its maturity.

Yuchai Rmb 1 billion short-term financing bonds

Yuchai received approval from NAFMII for the issuance of RMB-denominated unsecured short-term financing bonds amounting to Rmb 1 billion. The bonds were issued on August 28, 2012 and will mature on August 29, 2013. The par value and issue price of each bond is Rmb 100. The bonds bear a fixed annual interest rate of 4.45%. Subscription to and trading of the bonds is only available in China to institutional investors of China's National Inter-bank Bond Market. All the proceeds from the issuance of the bonds are used by Yuchai as working capital.

17. Deferred grants

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Balance at beginning of year	280,696	333,291	53,140
Received during the year	71,015	68,637	10,944
Released to consolidated income statement	(18,420)	(28,534)	(4,549)
Reduced due to disposal of a subsidiary	–	(20,000)	(3,189)
Balance at end of year	333,291	353,394	56,346
Current (See Note 27)	14,708	27,332	4,358
Non-current	318,583	326,062	51,988
	333,291	353,394	56,346

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

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

18. Inventories

Inventories are comprised of:

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Raw materials	1,440,136	1,152,624	183,776
Work in progress	32,259	18,907	3,014
Finished goods	943,661	839,224	133,807
Total inventories at the lower of cost and net realizable value	2,416,056	2,010,755	320,597

Inventories recognized as an expense in cost of sales are Rmb 11,230,551, Rmb 10,975,089 and Rmb 9,477,769 (US$1,511,148) in the year ended December 31, 2010, 2011 and 2012 respectively.

An analysis of the inventory reserve accounts is as follows:

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Balance at beginning of year	171,432	150,477	23,992
Inventories written down	52,791	23,478	3,743
Reversal of write down of inventories	(65,203)	(47,504)	(7,574)
Written off	(8,543)	(53)	(8)
Balance at end of year	150,477	126,398	20,153

The amount of reversal of inventories recognized as an expense and included in "Cost of sales" amounted to Rmb 111,763, Rmb 12,412 and Rmb 24,026 (US$3,831) in the year ended December 31, 2010, 2011 and 2012 respectively. The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2012.

19. Other current assets

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Development properties	55,698	52,464	8,365
Held for trading investment	40,524	48,761	7,775
Held-to-maturity investment	–	240,566	38,356
	96,222	341,791	54,496

On June 11, 2012, a one-year Great British Pound ("GBP") denominated time deposit of GBP 23.7 million (equivalent to Rmb 240.6 million) was deposited by Yuchai with ICBC at an annual interest rate of 5.584% as guarantee of a one-year loan contract from the same bank amounting to US$36.8 million. On the same date, Yuchai entered into a NDF with ICBC to purchase US$36.8 million at the forward exchange rate (USD/GBP) of 1.5525 on the repayment date of the aforesaid bank loan on Jun 11, 2013 (See Note 16(a)). The Group accounted this GBP-denominated time deposit as held-to-maturity investment.

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

20. Trade and bills receivables

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Trade receivables (net)	753,924	395,025	62,983
Bills receivables	5,936,993	6,196,711	988,012
	6,690,917	6,591,736	1,050,995

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

The Group factored a portion of the trade receivables during the years ended December 31, 2011 and 2012. Factoring is done with large banks in China. As of December 31, 2012, the Group has no obligation to the banks for trade receivables factored with recourse (2011: Rmb 800.0 million was included in "Interest-bearing loans and borrowings").

As of December 31, 2011 and 2012, outstanding bills receivables discounted with banks for which the Group retained a recourse obligation totaled Rmb 1,058,503 and Rmb 828,974 (US$132,173) respectively.

As of December 31, 2011 and 2012, outstanding bills receivables endorsed to suppliers with recourse obligation were Rmb 874,340 and Rmb 567,112 (US$90,421) respectively.

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

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Balance at beginning of year	61,161	59,177	9,435
Debit/(credit) to consolidated income statement	1,723	(15,184)	(2,421)
Written off	(3,702)	(334)	(53)
Translation differences	(5)	5	1
Balance at end of year	59,177	43,664	6,962

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

As of December 31, 2011 and 2012, gross trade receivables due from a major customer, Dongfeng Automobile Company and its affiliates (the "Dongfeng companies") were Rmb 341,374 and Rmb 145,351 (US$23,175), respectively. See Note 32 for further discussion of customer concentration risk.

		Neither past due	Past due but not impaired			
	Total	nor impaired	0 – 90 days	91-180 days	>181-365 days	>365 days
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 31.12.2012	6,591,736	6,417,854	120,507	25,962	9,310	18,103
At 31.12.2011	6,690,917	6,386,696	236,917	36,468	23,459	7,377

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

21. Other receivables

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
GST/VAT recoverable	188,180	71,496	11,399
Staff advances	3,856	9,766	1,557
Amounts due under guarantee contracts, net (See Note 30)	12,043	–	–
Associates and joint ventures	123,111	61,456	9,799
Other related parties	37,756	20,148	3,213
Interest receivables	3,363	82	13
Custom tax refund	3,916	–	–
Other tax recoverable	19,775	19	3
Bills receivable in transit	52,915	45,800	7,302
Others	37,132	35,206	5,613
Impairment losses – other receivables [(i)]	(15,978)	(640)	(102)
	466,069	243,333	38,797

Note:

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Balance at beginning of year	26,174	15,978	2,548
Debit/(credit) to consolidated income statement	620	(4,463)	(712)
Written off	(10,740)	(10,957)	(1,747)
Translation differences	(76)	82	13
Balance at end of year	15,978	640	102

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

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

22. Cash and bank balances

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Cash at banks and on hand	2,606,553	2,671,237	425,906
Short-term bank deposits	1,518,223	485,762	77,450
Cash and bank balances	4,124,776	3,156,999	503,356
Less: Restricted cash	–	(29,397)	(4,686)
Cash and cash equivalents per consolidated statement of cash flows	4,124,776	3,127,602	498,670

Cash at banks earn interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate as at December 31, 2012 for the Group was 2.12% (2011: 3.50%; 2010: 2.65%).

Cash and bank balances denominated in various currencies are held in bank accounts in Singapore and the PRC. As of December 31, 2012, the restricted cash of Rmb 29,397 (US$4,686) was used as collateral by the banks for the issuance of bills to suppliers, which would mature after three months.

As of December 31, 2011 and 2012, the Group had available Rmb 4,072,955 and Rmb 4,164,871 (US$664,053) respectively of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2010, 2011 and 2012 were Rmb 102, Rmb 366 and Rmb 556 (US$89) respectively.

23. Assets classified as held for sale

Proposed sale of 28% of the issued ordinary shares in the capital of Scientex Park (M) Sdn Bhd ("Proposed Scientex Park Sale")

On December 27, 2012, the Group's subsidiary, HLGE announced that its wholly-owned subsidiaries, LKN Development Pte Ltd ("LKND") and Nirwana Properties Sdn Bhd ("Nirwana"), had on the same day entered into the conditional share sale agreement dated December 27, 2012 (the "Scientex Park Sale Agreement") with Scientex Quatari Sdn Bhd ("Scientex Quatari"), pursuant to which LKND and Nirwana have agreed to sell, and Scientex Quatari has agreed to purchase, an aggregate of 6,300,000 issued and paid-up ordinary shares of par value RM1.00 each in the capital of Scientex Park (M) Sdn Bhd ("Scientex Park") held by LKND and Nirwana, representing 28% of the issued share capital of Scientex Park, for a total cash consideration of RM 21,105,000 (equivalent to approximately US$6.8 million), upon the terms and subject to the conditions of the Scientex Park Sale Agreement.

The completion of the Proposed Scientex Park Sale is conditional upon the approval of the shareholders at the Extraordinary General Meeting of HLGE ("EGM") having been obtained for the Proposed Scientex Park Sale in accordance with the requirements of the Singapore Exchange. On March 26, 2013, the Proposed Scientex Park Sale has been approved at the EGM (See Note 35).

The investment in Scientex Park was previously reported in the HLGE segment. As of December 31, 2012, the investment in Scientex Park has been presented in the statement of financial position as "Assets classified as held for sale".

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

23. Assets classified as held for sale (cont'd)

Proposed disposal of 50% equity interest in Shanghai International Equatorial Hotel Company Ltd. ("Proposed SIEH Disposal")

On December 28, 2012, the Group's subsidiary, HLGE announced that its wholly-owned subsidiary, LKN Investment International Pte Ltd ("LKNII"), has on the same day entered into a share transfer agreement dated December 28, 2012 (the "Share Transfer Agreement") with Shanghai International Ventures & Consulting Corporation ("SIVCC") pursuant to which LKNII has agreed to transfer its equity interest in 50% of the registered capital of Shanghai International Equatorial Hotel Company Ltd. ("SIEH") (the "Transfer Equity") to SIVCC for a cash consideration of Rmb 40 million (equivalent to approximately US$6.4 million) upon the terms and conditions of the Share Transfer Agreement.

The completion of the Transfer Equity from LKNII to SIVCC is subject to, *inter alia*, LKNII and SIVCC obtaining the relevant corporate approvals from the shareholders of HLGE at the EGM and board of SIVCC for the Proposed SIEH Disposal. SIVCC has also undertaken that SIEH shall submit its application to the Shanghai Industrial and Commercial Administration Bureau or its subdivision for a new business license, only after all corporate approvals have been obtained by HLGE for the Proposed SIEH Disposal in connection with the completion of the transfer of the Transfer Equity. On March 26, 2013, the Proposed SIEH Disposal has been approved at the EGM (See Note 35).

The investment in SIEH was previously reported in the HLGE segment and China segment under geographical information. As of December 31, 2012, the investment in SIEH has been presented in the statement of financial position as "Assets classified as held for sale".

The assets classified as held for sale and the related foreign currency translation reserve as at December 31 are as follows:

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Investment in associate (See Note 5)			
Cost	–	18,155	2,895
Share of post acquisition reserves	–	20,841	3,322
	–	38,996	6,217
Investment in joint venture (See Note 6)			
Cost	–	148,805	23,726
Share of post acquisition reserves	–	(118,305)	(18,863)
	–	30,500	4,863
Assets classified as held for sale	–	69,496	11,080
Reserves of disposal groups classified as held for sale attributable to equity holders of the parent	–	(13,784)	(2,198)

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

24. Issued capital and reserves

	31.12.2011 thousands	31.12.2012 thousands	31.12.2012 thousands
Authorized shares			
Ordinary share of US$0.10 each	100,000	100,000	100,000

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Ordinary shares issued and fully paid			
37,267,673 ordinary shares issued and fully paid at US$0.10 per share	1,724,196	1,724,196	274,908
Non-redeemable convertible cumulative preference shares ("NCCPS")	21	21	3

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

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

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

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

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

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

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

25. Dividends declared and paid

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2011: **US$1.50** per share (2010: **US$0.25** per share)	365,683	–	–
Final dividend paid in 2012: **US$0.90** per share (2011: **US$1.50** per share)	–	211,729	33,758
	365,683	211,729	33,758

26. Statutory reserves

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Statutory general reserve (See Note (ii))			
Balance at January 1	180,717	185,762	29,618
Transfer from retained earnings	5,045	1,686	269
Reduced due to liquidation of a subsidiary	–	(85)	(14)
Balance at end of year	185,762	187,363	29,873
Statutory public welfare fund (See Note (iii))			
Balance at January 1 and December 31	85,641	85,641	13,655
General surplus reserve (See Note (iv))			
Balance at January 1 and December 31	25,706	25,706	4,099
Balance at end of year	297,109	298,710	47,627

Notes:

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

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

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

26. Statutory reserves (cont'd)

(iii) Yuchai and its subsidiaries shall determine to transfer 5% to 10% of its net income reported in the PRC financial statements to the statutory public welfare fund. There is no limit on the amount that may be allocated to this fund. This fund can only be utilized on capital expenditure for the collective welfare of Yuchai and its subsidiaries' employees, such as the construction of dormitories, canteen and other welfare facilities, and cannot be utilized to pay staff welfare expenses. The transfer to this fund must be made before the distribution of a dividend to stockholders. Since January 1, 2006, in accordance with the amended Yuchai's policy, the contribution to the fund ceased.

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

27. Trade and other payables

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Trade payables	4,813,009	4,587,358	731,414
Other payables [1]	2,026,455	2,034,082	324,317
Deferred grants (See Note 17)	14,708	27,332	4,358
Interest payable	61,881	16,332	2,604
Holding company	19	31	5
Associates and joint ventures	4,120	24,482	3,903
Other related parties	313,959	231,580	36,924
	7,234,151	6,921,197	1,103,525

[1] As of December 31, 2011 and 2012, Rmb 80 million of prepayment received from a joint venture was included in other payables for the Group's transfer of technology know-how.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of three months.
- Interest payable is normally settled throughout the financial year. As of December 31, 2012, Rmb 14,296 (2011: Rmb 59,303) of interest payable was related to bond issued during the year.
- For terms and conditions relating to related parties, refer to Note 29.

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

28. Provision for product warranty

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Balance at beginning of year	352,154	307,072	48,960
Provision made	401,935	322,442	51,411
Less: Provision utilized	(447,017)	(361,508)	(57,640)
Balance at end of year	307,072	268,006	42,731

29. Related party disclosures

The ultimate parent

Our controlling shareholder, HLA, indirectly owns 12,998,040, or 34.9%, of the outstanding shares of our common stock, as well as a special share that entitles it to elect a majority of our directors. HLA controls us through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 21.0% of the outstanding shares of our common stock and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 13.9% of the outstanding shares of our common stock. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, 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 our bye-laws and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of Rmb Nil (US$ Nil), Rmb 329 and Rmb 299 during the financial years ended December 31, 2012, 2011 and 2010 respectively.

Entity with significant influence over the Group

As of December 31, 2012, the Yulin City Government through Coomber Investment Ltd. owned 18.9% of the outstanding shares of our common stock (2011: 18.9%).

The following provides the total amount of transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2012 and 2011, refer to Notes 21 and 27):

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Sales of diesel engines to State Holding Company, its subsidiaries and affiliates (See Note (i))	497,637	45,398	14,360	2,290
Sales of raw materials to State Holding Company, its subsidiaries and affiliates (See Note (i))	350,346	478,867	266,846	42,546
Sales to affiliates (See Note (i))	4,442	225,276	135,321	21,576
Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company (See Note (i))	(1,707,123)	(1,632,960)	(1,380,307)	(220,078)

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

29. Related party disclosures (cont'd)

	31.12.2010 Rmb'000	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Purchases of raw materials and supplies from affiliates (See Note (i))	(38,163)	(80,426)	(99,664)	(15,891)
Delivery expense charged by subsidiaries of State Holding Company (See Note (ii))	(244,360)	(229,169)	(187,403)	(29,880)
Storage expense charged by a subsidiary of State Holding Company (See Note (iii))	(41,507)	(41,410)	–	–
Sales of a subsidiary to a subsidiary of State Holding Company (See Note 1.2)	–	–	85,821	13,683
General and administrative expenses				
- charged by State Holding Company (See Note (iv))	(21,906)	(22,182)	(26,389)	(4,207)
- charged by HLA (See Note (v))	(299)	(329)	–	–
- charged by affiliates of HLA (See Note (vi))	(6,260)	(8,639)	(10,152)	(1,619)
- charged to affiliates (See Note (vii))	*	*	8,499	1,355

* *Amounts were not material.*

Note:

(i) Sale and purchase of raw materials, supplies, scraps and diesel engines to/from State Holding Company, its subsidiaries and affiliates, and Yuchai's associates and joint ventures. Certain subsidiaries and affiliates of State Holding Company have acted as suppliers of raw materials and supplies to the Group and certain subsidiaries of State Holding Company have acted as sales agents of the Group. The State Holding Company also purchased scraps from the Group. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms.

(ii) Delivery expense charged by subsidiaries of State Holding Company. The fee is for the delivery of spare parts charged, which were recorded in "Cost of goods sold" and "Selling, general and administrative expenses" respectively. Management considers that these transactions were entered into in the normal course of business and these transactions continued on normal commercial terms.

(iii) Storage expenses charged by subsidiary of State Holding Company for the storage of engines, components and parts for Yuchai and delivery to the production facilities are required.

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

(v) Management fees, general and administrative expenses charged by HLA.

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

29. Related party disclosures (cont'd)

Note: (cont'd)

(vi) General and administrative expenses charged by affiliates of HLA. The fees mainly relate to office rental, secretarial fees, insurance fees, professional and consultancy fees, and miscellaneous office expenses.

(vii) Hotel management fees charged to affiliates.

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.

As of December 31, 2012, Rmb Nil (US$ Nil) (2011: Rmb 54 million) of prepayment paid to a related party was included in prepayment for the Group's acquisition of technology know-how.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on normal commercial terms. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

Compensation of key management personnel of the Group

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
Short-term employee benefits	53,883	31,187	24,889	3,968

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

30. Commitments and contingencies

Operating lease commitments - Group as lessee

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

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Within one year	9,984	11,971	1,909
After one year but not more than five years	10,259	5,772	920
	20,243	17,743	2,829

The minimum lease payments recognized as an expense in the period ended December 31, 2010, 2011 and 2012 amounted to Rmb 49,780, Rmb 43,806 and Rmb 46,817 (US$7,465).

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

30. Commitments and contingencies (cont'd)

Operating lease commitments - Group as lessor

The Group has leased out some of its assets, including surplus office and manufacturing buildings. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Within one year	7,006	4,083	651
After one year but not more than five years	9,163	8,829	1,408
More than five years	13,258	24,361	3,884
	29,427	37,273	5,943

Capital commitments

As of December 31, 2011 and 2012, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not recognized in the financial statements amounting to Rmb 1,309.1 million and Rmb 896.2 million (US$142.9 million), respectively.

Letter of credits

As of December 31, 2011 and 2012, Yuchai had issued irrevocable letter of credits of Rmb 162.4 million and Rmb 35.7 million (US$5.7 million), respectively.

Product liability

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

Environmental liability

China adopted its Environmental Protection Law in 1989, and the State Council and the State Environmental Protection Agency promulgate regulations as required from time to time. The Environmental Protection Law addresses issues relating to environmental quality, waste disposal and emissions, including air, water and noise emissions. Environmental regulations have not had a material impact on Yuchai's results of operations. Yuchai delivers, on a regular basis, burned sand and certain other waste products to a waste disposal site approved by the local government and makes payments in respect thereof. Yuchai expects that environmental standards and their enforcement in China will, as in many other countries, become more stringent over time, especially as technical advances make achievement of higher standards more feasible. Yuchai has built an air filter system to reduce the level of dust and fumes resulting from its production of diesel engines. The PRC emission standard equivalent to Euro III is implemented throughout China from 2008.

30. Commitments and contingencies (cont'd)

Environmental liability (cont'd)

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

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

Guarantees

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

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

Subsequent to initial measurement and recognition of the liability for YEGCL's obligations under these loan guarantees, management evaluates YEGCL's guarantee portfolio and accounts for potential loss contingencies associated with the guarantees based on the estimated losses resulting from known and expected defaults. Each guarantee is secured by a cash deposit from the borrower and a security interest in the automobile purchased by the borrower. As of December 31, 2011, YEGCL had gross receivables of Rmb 12,043 relating to payments made by YEGCL to the banks in conjunction with loans that had been defaulted and to be recovered from the individual borrowers. YEGCL recorded a bad debt allowance in the amount of Rmb 11,975 for other receivables, and Rmb 235 for potential losses associated with the guarantee at December 31, 2011. The net receivables amount of Rmb 68 is included in "Other receivables" in the accompanying consolidated statement of financial position (See Note 21).

30. Commitments and contingencies (cont'd)

Guarantees (cont'd)

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

In November 2012, Yuchai disposed of its entire shareholdings in YEGCL (See Note 1.2).

31. Segment information

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

- Yuchai primarily conducts manufacturing and sale of diesel engines which are mainly distributed in the PRC market.

- The HLGE is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia.

HLGE is listed on the Main Board of the Singapore Exchange.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

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

31. Segment information (cont'd)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended December 31, 2012	Yuchai	HLGE	Adjustments and eliminations	Consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Revenue				
External customers	13,411,384	38,105	–	13,449,489
Inter-segment	–	–	–	–
Total revenue	13,411,384	38,105	–	13,449,489
Results				
Interest income	98,579	622	484[(1)]	99,685
Interest expense	(205,746)	(9,070)	7,743[(1)]	(207,073)
Impairment of property, plant and equipment	(8,026)	–	–	(8,026)
Depreciation and amortization	(343,191)	(4,649)	(645)[(2)]	(348,485)
Share of profit of associates	366	2,006	–	2,372
Share of results of joint ventures	(30,904)	(5,533)	(2,804)[(9)]	(39,241)
Income tax expense	(122,064)	(2,380)	(17,794)[(3)]	(142,238)
Segment profit	918,646	(3,537)	(1,533)[(4)]	913,576
Operating assets	17,002,251	310,443	541,483	17,854,177
Assets classified as held for sale	–	82,907	(13,411)	69,496
Total assets	17,002,251	393,350	528,072[(5)]	17,923,673
Total liabilities	(9,943,167)	(406,211)	197,572[(6)]	(10,151,806)
Other disclosures				
Investment in associates	1,719	392	–	2,111
Investment in joint ventures	243,156	41,107	92,257[(8)]	376,520
Capital expenditure	736,664	20	43[(7)]	736,727

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

31. Segment information (cont'd)

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

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

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

31. Segment information (cont'd)

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

(1) Included here are interest income and expense of the holding entity's interest income and expense and inter-segment interest income and expense that are eliminated on consolidation.

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

(3) This relates mainly to the withholding tax provisions for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai that has not been remitted.

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

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

31. Segment information (cont'd)

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

(6) Segment liabilities consist of the liabilities of the holding entity.

(7) Included here are capital expenditures incurred by the holding entity.

(8) Included here are HLGE's share of its joint ventures' property, plant and equipment valued at fair value in excess of costs.

(9) Included here are HLGE's share of additional depreciation on its joint ventures' property, plant and equipment valued at fair value in excess of costs.

Geographic information

Revenues from external customers:

	31.12.2010	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	Rmb'000	US$'000
China	16,176,305	15,435,399	13,434,634	2,142,036
Other countries	31,879	9,029	14,855	2,368
	16,208,184	15,444,428	13,449,489	2,144,404

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

Revenue from one customer group amounted to Rmb 2,445,703 (US$389,946) (2011: Rmb 3,029,125; 2010: Rmb 3,313,432), arising from sales by Yuchai segment.

	31.12.2011	31.12.2012	31.12.2012
	Rmb'000	Rmb'000	US$'000
Non-current assets			
China	4,826,350	5,114,885	815,524
Assets classified as held for sale - China	–	(30,500)	(4,863)
Other countries	3,857	3,343	533
	4,830,207	5,087,728	811,194

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

32. Financial risk management objectives and policies

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

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investment, held-to-maturity investment and derivative financial instrument.

The sensitivity analysis in the following sections relate to the position as at December 31, 2012 and 2011.

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, 2012.

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 its borrowings from banks and financial institutions and held-to-maturity investment. The interest-bearing borrowings of the Group are disclosed in Note 16. As certain rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group. The held-to-maturity investment of the Group is disclosed in Note 19.

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

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

32. Financial risk management objectives and policies

Interest rate risk (cont'd)

Interest rate sensitivity

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

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2012 of the Group would increase/decrease by Rmb 4.7 million (US$0.7 million) (2011: increase/decrease by Rmb 2.1 million).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument 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, Malaysian Ringgit, Great British Pound, Renminbi and United States Dollar.

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:

	December 31, 2011				
Group	**Singapore Dollar**	**Euro**	**United States Dollar**	**Renminbi**	**Others**
	Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**	**Rmb'000**
Other investments	42,101	–	–	–	–
Trade and other receivables	496	2,961	57,230	42,849	74
Cash and bank balances	108,042	–	1,174	–	–
Financial liabilities	(48,769)	–	–	–	–
Trade and other payables	(41,386)	(7)	(38,555)	(2,046)	(20)
In Rmb'000	60,484	2,954	19,849	40,803	54

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

32. Financial risk management objectives and policies

Foreign currency risk (cont'd)

	December 31, 2012					
Group	**Singapore Dollar**	**Euro**	**Great British Pound**	**United States Dollar**	**Renminbi**	**Others**
	Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**	**Rmb'000**	**Rmb'000**
Other investments	48,761	–	240,566	–	–	–
Trade and other receivables	534	133	–	23,237	40,633	444
Cash and bank balances	140,858	–	–	1,147	13	479
Financial liabilities	(51,422)	(5,606)	–	(271,065)	–	–
Trade and other payables	(43,498)	–	–	(34,233)	(1,336)	(114)
In Rmb'000	95,233	(5,473)	240,566	(280,914)	39,310	809
In US$'000	15,184	(873)	38,356	(44,789)	6,268	129

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2011	**31.12.2012**	**31.12.2012**
	Rmb'000	**Rmb'000**	**US$'000**
Singapore Dollar	6,048	9,523	1,518
Euro	295	(547)	(87)
Great British Pound	–	24,057	3,836
United States Dollar	1,985	(28,091)	(4,479)
Renminbi	4,080	3,931	627

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

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

Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

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

	31.12.2011	31.12.2012	31.12.20112
	Rmb'000	Rmb'000	US$'000
Income statement	4,052	4,876	777

Credit risk

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

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

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

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

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

At December 31, 2012, the Group had approximately top 20 customers (2011: top 20 customers) that owed the Group more than Rmb 246.4 million (US$39.3 million) (2011: Rmb 476.6 million) and accounted for approximately 56% (2011: 59%) of accounts receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 35 customers (2011: 45 customers) with balances greater than 1 million (US$0.2 million) accounting for just over 81.3% (2011: 82.3%) of total accounts receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20. The Group does not hold collateral as security.

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

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

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

Liquidity risk

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

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

	One year or less	Two to five years	Total
As at December 31, 2012	**Rmb'000**	**Rmb'000**	**Rmb'000**
Financial assets			
Trade and bill receivables	6,591,736	–	6,591,736
Other receivables:			
Staff advances	9,766	–	9,766
Associates	34,936	–	34,936
Other related parties	46,923	–	46,923
Others	151,708	–	151,708
Cash and bank balances	3,156,999	–	3,156,999
	9,992,068	–	9,992,068
Financial liabilities			
Interest-bearing loans and borrowings	2,459,169	116,687	2,575,856
Trade and other payables	6,921,197	–	6,921,197
	9,380,366	116,687	9,497,053
As at December 31, 2011			
Financial assets			
Trade and bill receivables	6,690,917	–	6,690,917
Other receivables:			
Staff advances	3,856	–	3,856
Amounts due under guarantee contracts, net	12,043	–	12,043
Associates	123,111	–	123,111
Other related parties	37,756	–	37,756
Others	289,303	–	289,303
Cash and bank balances	4,124,776	–	4,124,776
	11,281,762	–	11,281,762
Financial liabilities			
Interest-bearing loans and borrowings	3,746,729	156,466	3,903,195
Preference shares	–	830	830
Trade and other payables	7,234,151	–	7,234,151
	10,980,880	157,296	11,138,176

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

33. Capital management

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

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

	31.12.2011 Rmb'000	31.12.2012 Rmb'000	31.12.2012 US$'000
Interest-bearing loans and borrowings (See Note 16)	3,696,731	2,450,695	390,742
Trade and other payables (See Note 27)	7,234,151	6,921,197	1,103,525
Less: Cash and bank balances (See Note 22)	(4,124,776)	(3,156,999)	(503,356)
Net debts	6,806,106	6,214,893	990,911
Equity	5,542,203	5,901,913	941,008
Total capital and net debts	12,348,309	12,116,806	1,931,919

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, 2012 and 2011.

34. Fair values of financial instruments

Fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The Group has a financial asset in Level 1. The Group owns shares in TCL, which is a company listed on the main board of the Singapore Exchange and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. As at December 31, 2012, the Group classified the investment as held for trading and measured the investment at fair value through profit or loss.

34. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

The Group also has a financial liability in level 2. As at December 31, 2012, the Group enters into NDF with a financial institution and measured the NDF at fair value through profit or loss (See Note 16(a)). The fair value of NDF is determined by direct reference to its bid price quotation provided by the financial institution which the NDF is entered with.

The Group does not have any financial instruments in level 3 of the hierarchy.

During the reporting period ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

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

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

Other financial assets and liabilities

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

35. Events after the reporting period

(a) Cooperation with Guangxi Skylink Software Technology Co., Ltd.

On February 8, 2013, Yuchai, pursuant to a Joint Venture Agreement entered into with Guangxi Skylink Software Technology Co., Ltd. ("Guangxi Skylink"), incorporated Guangxi Yineng IOT Techonology Co., Ltd ("Yineng") in Nanning, Guangxi province to design, develop, manage and market an Electronic Operations Management Platform. The registered share capital of Yineng is Rmb 36 million. Yuchai holds 40% and Guangxi Skylink holds the remaining 60% in the joint venture. Yuchai and Guangxi Skylink hold joint control in governing the financial and operating policies of the joint venture.

(b) Proposed sale of 28% of the issued ordinary shares in the capital of Scientex Park (M) Sdn Bhd ("Proposed Scientex Park Sale") and proposed disposal of 50% equity interest in Shanghai International Equatorial Hotel Company Ltd. ("Proposed SIEH Disposal")

On March 26, 2013, the Proposed Scientex Park Sale and Proposed SIEH Disposal were approved at the Extraordinary General Meeting of HLGE. The Group's investments in Scientex Park (M) Sdn Bhd and Shanghai International Equatorial Hotel Company Ltd. have been classified as assets classified as held for sale (See Note 23) as of December 31, 2012.

35. Events after the reporting period (cont'd)

(c) Sales of 4.5% of the issued shares in Thakral Corporation Ltd. ("TCL")

Subsequent to the reporting period, the Company sold additional 116,284,000 sales in the open market at a consideration of S$4.3 million (US$3.5 million), resulting in its shareholding interests in TCL decreasing from 12.2% to 7.7% and recorded a gain of S$0.8 million (US$0.6 million).

(d) Extension of loan agreement with HLGE

The Company, through its wholly owned subsidiary, Venture Lewis Limited ("VLL") has entered into a loan agreement with HLGE ("2013 Loan Agreement") for the extension of a loan of S$75 million ("Loan") to HLGE. The original amount of the Loan was S$93 million which was granted to HLGE in February 2009 to refinance the zero coupon unsecured non-convertible bonds issued by HLGE in 2006 and which matured on July 3, 2009. However, the principal amount has been reduced to S$75 million pursuant to the partial repayments of S$ 10 million and S$8 million made by HLGE in February 2011 and April 2012 respectively.

The unsecured Loan has, pursuant to the terms of the 2013 Loan Agreement, been extended for one year from July 2013 and is due for repayment in July 2014. Under the terms of the 2013 Loan Agreement, the interest payable will remain as the aggregate of a margin of 1.50% per annum and the 12-month Singapore Interbank Offer Rate expressed in a percentage rate fixed by the Association of Banks in Singapore for Singapore Dollars as of January 29, 2013 which was 0.561%. In the event the interest rate charged on external funds utilized by CYI for their investment in HLGE is increased, the Company has a right to negotiate with HLGE with a view to agreeing on an increase in the interest rate payable by HLGE under the 2013 Loan Agreement subject to compliance with certain regulatory requirements. A negative pledge undertaking against any disposal or creation of security over substantially all of HLGE's assets without VLL's consent is also included.

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