
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-13522

China Yuchai International Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable
(Translation of Registrant's Name
Into English)

Bermuda
(Jurisdiction of Incorporation or
Organization)

16 Raffles Quay #39-01A
Hong Leong Building
Singapore 048581
(Address of Principal Executive Offices)

Loo Choon Sen
Chief Financial Officer
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Singapore 048581
Tel: +65 6220 8411
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value US\$0.10 per Share	CYD	The New York Stock Exchange

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2021, 40,858,290 shares of common stock, par value US\$0.10 per share, and one special share, par value US\$0.10, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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CHINA YUCHAI INTERNATIONAL LIMITED

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Certain Definitions and Supplemental Information

All references to “China” and “PRC” in this Annual Report are references to the People’s Republic of China. Unless otherwise specified, all references in this Annual Report to “US dollar” or “US\$” are to the United States dollar; all references to “Renminbi” or “RMB” are to Renminbi, the legal tender currency of China; all references to “S\$” are to the Singapore dollar, the legal tender currency of Singapore. Unless otherwise specified, translation of amounts for the convenience of the reader has been made in this Annual Report (i) from Renminbi to US dollar at the rate of RMB 6.3222 = US\$1.00, the rate quoted by the People’s Bank of China, or the PBOC, on February 28, 2022, and (ii) from Singapore dollar to US dollar at the rate of S\$1.3549 = US\$1.00, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on February 28, 2022, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on February 28, 2022. No representation is made that the Renminbi amounts, Singapore dollar amounts or Ringgit amounts could have been, or could be, converted into US dollar at rates specified herein or any other rate.

As used in this Annual Report, unless the context otherwise requires, the terms “the Company”, “the Group”, “CYI”, “we”, “us”, “our” and “our company” refer to China Yuchai International Limited and its subsidiaries. All references herein to “Yuchai” are to Guangxi Yuchai Machinery Company Limited and its subsidiaries and, prior to its incorporation in July 1992, to the machinery business of its predecessor, Guangxi Yulin Diesel Engine Factory, or Yulin Diesel. In the restructuring of Yulin Diesel in July 1992, its other businesses were transferred to Guangxi Yuchai Machinery Group Company, which became a shareholder of Yuchai. All references herein to “the GY Group” are to Guangxi Yuchai Machinery Group Company (formerly known as Guangxi Yuchai Machinery Holdings Company, and also Guangxi Yuchai Machinery Group Company Limited) and its subsidiaries. In May 1993, in order to finance further expansion, Yuchai sold shares to the Company. All references herein to “Foreign Shares” are to the shares sold by Yuchai to non-Chinese legal and natural persons (currently only CYI). All references to “HLGE” are to HL Global Enterprises Limited (formerly known as HLG Enterprise Limited); and all references to the “HLGE group” are to HLGE and its subsidiaries. All references to “TCL” are to Thakral Corporation Ltd; and all references to the “TCL group” are to TCL and its subsidiaries.

As of December 31, 2021, 40,858,290 shares of our common stock, par value US\$0.10 per share, or Common Stock, and one special share, par value US\$0.10, of our Common Stock were issued and outstanding. The weighted average shares of common stock outstanding during the year was 40,858,290. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 40,858,290 for 2021. As of February 28, 2022, 40,858,290 shares of our Common Stock, and one special share, par value US\$0.10 were issued and outstanding.

In China, Euro emission standards are equivalent to National emission standards and references to National emission standards are equivalent to references to Euro emission standards. All references to Tier-3 and Tier-4 emission standards are to emission standards adopted by the Ministry of Ecology and Environment of the People’s Republic of China, or the “MEE”, applicable to diesel engines used in off-road machinery.

All references to “CAAM” are to the China Association of Automobile Manufacturers. Unless stated otherwise, all data related to the commercial vehicle market in China in this Annual Report is attributed to CAAM.

Our consolidated financial statements are reported in Renminbi and prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). Totals presented in this Annual Report may not correctly total due to rounding of numbers. References to a particular fiscal year are to the period ended December 31 of such year.

The financial and operational data included in this Annual Report reflect Yuchai’s current classification system for light-, medium- and heavy-duty engines, which was implemented in 2018. Under this classification system, light-duty engines have engine capacity of 3.8 liters or less; medium-duty engines have engine capacity of between 3.8 liters and 7.0 liters; and heavy-duty engines have engine capacity of more than 7.0 liters. In addition to engine capacity, this classification system takes into account the commercial application of the engines by original equipment manufacturers. For example, certain 4-cylinder engines that were previously classified as light-duty engines have been reclassified as medium-duty engines to the extent that they have application in the light- and medium-duty segments.

Cautionary Statements with Respect to Forward-Looking Statements

We wish to caution readers that the forward-looking statements contained in this Annual Report, which include all statements that, at the time made, address future results of operations, are based upon our interpretation of factors affecting our business and operations. We believe that the following important factors, among others, in some cases have affected, and in the future could affect our consolidated results and could cause our consolidated results for 2022 and beyond to differ materially from those described in any forward-looking statements made by us or on our behalf:

- political, economic and social conditions in China, including the policies with respect to foreign investment, economic growth and the availability of credit, particularly to the extent such current or future conditions and policies affect the diesel and natural gas engine industries and markets in China, our diesel and natural gas engine customers, the demand, sales volume and sales prices for our diesel and natural gas engines and our levels of accounts receivables;

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- the threat arising from initiatives and preferential policies in China to develop energy saving and new energy vehicles, including hybrid, pure electric vehicles, fuel cell electric vehicles and other alternative energy-powered vehicles, which may lead to a decrease in demand for our engines, affecting our market share and profitability;
- the effects of a weaker than expected recovery in the global economy subject to substantial downside risks including heightened policy uncertainty especially regarding trade policies, tariffs and government regulations, financial market disruptions amid global financial conditions and heightened geopolitical tensions globally, protracted recovery in the Euro Area and the economic effects from the withdrawal of the United Kingdom from the European Union, instability in the geopolitical environment as a result of the Russia-Ukraine conflict and increasing tensions in the Asian Pacific on the overall global economy and our business, operating results and growth rates;
- United States regulators may be limited in their ability to conduct investigations or inspections of our operations in China;
- the increasingly stringent policies and regulations related to climate change and environmental protection;
- the effects of competition and excess capacity in the diesel engine market on the demand, sales volume and sales prices for our diesel engines;
- if we are not able to continually improve our existing engine products and develop new engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects will be adversely affected;
- developments relating to the COVID-19 pandemic and its effects on our business and results of operations, and any future outbreak of communicable diseases or viral epidemics and their potential effects on our business and results of operations;
- the effects of previously reported material weaknesses in our internal control over financial reporting and our ability to implement and maintain effective internal control over financial reporting;
- our ability to collect and control our levels of accounts receivables;
- our dependence on our largest customers, including our top customer and other major diesel truck manufacturers controlled by or affiliated with it;
- our ability to successfully manage and implement our joint ventures to manufacture and sell our engines and any new products;
- our ability to finance our working capital and capital expenditure requirements, including obtaining any required external debt or other financing;
- the effects of fluctuating interest rates in China on our borrowing costs or the availability of funding;
- the effects of inflation and deflation, increases in prices and supply constraints of energy, raw materials or components, on our financial condition and results of operations;
- our ability to successfully implement the Reorganization Agreement, as amended by the Cooperation Agreement (both as defined in “Item 4. Information on the Company — History and Development”);
- our ability to control Yuchai and consolidate Yuchai’s financial results;
- any limitations on the legal protection in China available to foreign investors, including with respect to the enforcement of foreign judgments in China;
- the effects of changes to the international, regional and economic climate and market conditions in countries that may adversely impact on our operations as well as domestic and export sales performance; and
- the impact of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics (including but not limited to the COVID-19 pandemic) that may affect travel patterns and reduce the number of travelers and tourists to the HLGE group’s hospitality operations.

Our actual results, performance, or achievement may differ from those expressed in, or implied by, the forward-looking statements contained in this Annual Report. Accordingly, we can give no assurances that any of the events anticipated by these forward-looking statements will transpire or occur or, if any of the foregoing factors or other risks and uncertainties described elsewhere in this Annual Report were to occur, what impact they will have on these forward-looking statements, including the results of our operations or financial condition. In view of these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements contained in this Annual Report to reflect the occurrence of events after the date of this Annual Report.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The selected consolidated statement of financial position data as of December 31, 2019, 2020 and 2021, and the selected consolidated statement of profit or loss data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2019, 2020 and 2021 are derived from our audited consolidated financial statements included in this Annual Report. Our consolidated financial statements as of and for the years ended December 31, 2019, 2020, and 2021 have been prepared in conformity with IFRS.

The selected financial information as of and for the years ended December 31, 2019, 2020 and 2021 set forth below should be read in conjunction with, and is qualified in its entirety by reference to “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements and the notes thereto.

We currently own, through six of our wholly-owned subsidiaries, 76.4% of the outstanding shares of Yuchai. Our ownership interest in Yuchai is our main business asset. As a result, our financial condition and results of operations depend primarily upon Yuchai’s financial condition and results of operations, and the continued implementation of the Reorganization Agreement, as amended by the Cooperation Agreement. We also have a 48.9% interest in the outstanding ordinary shares of HLGE.

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	For Year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$ ⁽¹⁾
(in thousands, except per share data)				
Selected Consolidated Statement of Profit or Loss Data:				
Revenue	18,016,085	20,581,170	21,265,930	3,363,691
Gross profit	3,105,841	3,189,571	2,952,113	466,944
Research and development expenses	(492,204)	(626,478)	(848,812)	(134,259)
Other operating income, net	338,486	378,947	316,189	50,012
Operating profit	1,146,081	1,182,004	663,533	104,952
Share of profit/(loss) of associates and joint ventures, net of tax	19,034	(58,970)	(95,895)	(15,168)
Profit before tax	1,033,319	971,864	451,710	71,447
Income tax expense	(172,619)	(192,538)	(43,816)	(6,930)
Profit for the year	860,700	779,326	407,894	64,517
Attributable to:				
Equity holders of the Company	604,914	548,903	272,673	43,129
Non-controlling interests	255,786	230,423	135,221	21,388
Basic and diluted earnings per common share attributable to ordinary equity holders of the Company (RMB/US\$ per share)	14.81	13.43	6.67	1.06
Profit for the year per share (RMB/US\$ per share)	21.07	19.07	9.98	1.58
Weighted average number of shares	40,858	40,858	40,858	40,858

	For Year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$ ⁽¹⁾
(in thousands, except per share data)				
Selected Consolidated Statement of Financial Position Data:				
Working capital ⁽²⁾	6,173,249	6,209,190	5,348,224	845,944
Property, plant and equipment	4,210,444	4,258,760	4,197,909	663,995
Trade and other receivables	8,190,293	8,459,088	7,538,096	1,192,322
Total assets	23,854,191	26,290,958	25,100,686	3,970,244
Trade and other payables ⁽³⁾	8,644,393	10,302,531	9,827,840	1,554,497
Short-term and long-term loans and borrowings	2,055,046	2,230,000	2,203,000	348,454
Non-controlling interests	2,805,856	2,818,086	2,756,192	435,955
Issued capital	2,081,138	2,081,138	2,081,138	329,179
Equity attributable to equity holders of the Company	8,767,529	9,014,624	8,859,152	1,401,277

	For Year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$ ⁽¹⁾
(in thousands)				
Selected Consolidated Statement of Cash Flows Data:				
Net cash provided by operating activities	1,583,016	1,415,368	504,556	79,809
Net cash used in investing activities	(810,477)	(785,753)	(738,848)	(116,867)
Net cash used in financing activities	(589,429)	(461,832)	(838,563)	(132,638)
Net increase/(decrease) in cash and cash equivalents	183,110	167,783	(1,072,855)	(169,696)
Cash and cash equivalents at January 1	5,559,890	5,753,268	5,877,647	929,684
Effect of exchange rate changes on balances in foreign currencies	10,268	(43,404)	(16,573)	(2,622)
Cash and cash equivalents at December 31	5,753,268	5,877,647	4,788,219	757,366

⁽¹⁾ The Company's functional currency is US dollar and its reporting currency is Renminbi. The functional currency of Yuchai is Renminbi. Translation of amounts from Renminbi to US dollar is solely for the convenience of the reader. Translation of amounts from Renminbi to US dollar has been made at the rate of RMB 6.3222 = US\$1.00, the rate quoted by the PBOC at the close of business on February 28, 2022. No representation is made that the Renminbi amounts could have been, or could be, converted into US dollar at that rate or at any other rate prevailing on February 28, 2022 or any other date. The rate quoted by the PBOC at the close of business on December 31, 2021 was RMB 6.3757 = US\$1.00.

⁽²⁾ Current assets less current liabilities.

⁽³⁾ Inclusive of non-current other payables.

Dividends

Our principal source of cash flow has historically been our share of the dividends, if any, paid to us by Yuchai, as described under “Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources.”

In May 1993, in order to finance further expansion, Yuchai sold shares to the Company and became a Sino-foreign joint stock company.

Laws and regulations applicable to a Sino-foreign joint stock company in China require that before Yuchai distributes profits, it must (i) recover losses in previous years; (ii) satisfy all tax liabilities; and (iii) make contributions to the statutory reserve fund in an amount equal to 10% of net income for the year determined in accordance with generally accepted accounting principles in the PRC, or PRC GAAP. However, the allocation of statutory reserve fund will not be further required once the accumulated amount of such fund reaches 50% of the registered capital of Yuchai.

Any determination by Yuchai to declare a dividend will be at the discretion of Yuchai’s shareholders and will be dependent upon Yuchai’s financial condition, results of operations, regulatory factors and other relevant factors. Yuchai’s Articles of Association provide that dividends shall be paid at least once a year out of after-tax profits (if any). To the extent Yuchai has foreign currency available, dividends declared by shareholders at a shareholders’ meeting to be paid to holders of Foreign Shares (currently only the Company) will be payable in foreign currency, and such shareholders will have priority thereto. If the foreign currency available is insufficient to pay such dividends, such dividends may be payable partly in Renminbi and partly in foreign currency. Dividends allocated to holders of Foreign Shares may be remitted in accordance with the relevant Chinese laws and regulations. In the event that the dividends are distributed in Renminbi, such dividends may be converted into foreign currency and remitted in accordance with the relevant laws, regulations and policies in China.

Any determination by the Company to declare a dividend will be at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations and other relevant factors. The following table sets forth a five-year summary of dividends we have paid to our shareholders as well as dividends paid to us by Yuchai:

<u>Fiscal Year</u>	<u>Dividend paid by the Company to its shareholders for the fiscal year/ in the fiscal year (per share)</u>	<u>Dividend paid by Yuchai to the Company ⁽¹⁾ for the fiscal year / in the fiscal year (in thousands)</u>
2017	US\$0.90 ⁽²⁾	RMB 234,923 ⁽³⁾
2018	US\$2.21 ⁽⁴⁾	RMB 307,207 ⁽⁵⁾
2019	US\$0.85 ⁽⁶⁾	RMB 307,207 ⁽⁷⁾
2020	US\$0.85 ⁽⁸⁾	RMB 614,414 ⁽⁹⁾
2021	US\$1.70 ⁽¹⁰⁾	RMB 151,796 ⁽¹¹⁾

⁽¹⁾ Dividends paid by Yuchai are declared in Renminbi and paid to us in a mix of US dollar and Renminbi based on the exchange rates at local designated foreign exchange banks on the respective payment dates.

⁽²⁾ On May 24, 2017, we declared a dividend of US\$0.90 per ordinary share amounting to a total of US\$36.6 million for fiscal year 2016 payable either wholly in cash or new shares at the election of shareholders. Based on the elections by shareholders, the aggregate dividend was paid in the form of approximately US\$34.7 million in cash and 99,790 ordinary shares.

⁽³⁾ The dividend declared by Yuchai for fiscal year 2017 was paid to us between May 25, 2018 and May 29, 2018. For the dividend paid for the fiscal year 2017, RMB 234.9 million was paid in Renminbi.

⁽⁴⁾ On June 19, 2018, we declared a dividend of US\$0.73 per ordinary share and a special dividend of US\$1.48 per ordinary share amounting to a total of US\$90.3 million for fiscal year 2017. This dividend was paid to our shareholders on July 10, 2018.

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- (5) The dividend declared by Yuchai for fiscal year 2018 was paid to us on June 11, 2019 and June 12, 2019. For the dividend paid for the fiscal year 2018, RMB 307.2 million was paid in Renminbi.
- (6) On June 24, 2019, we declared a dividend of US\$0.85 per ordinary share amounting to a total of US\$34.7 million for fiscal year 2018. The dividend was paid in cash to our shareholders on July 19, 2019.
- (7) The dividend declared by Yuchai for fiscal year 2019 was paid to us on June 12, 2020 and June 15, 2020. For the dividend paid for the fiscal year 2019, RMB 307.2 million was paid in Renminbi.
- (8) On April 3, 2020, we declared a dividend of US\$0.85 per ordinary share amounting to a total of US\$34.7 million for fiscal year 2019. The dividend was paid in cash to our shareholders on July 31, 2020.
- (9) The dividend declared by Yuchai for fiscal year 2020 was paid to us between June 1, 2021 and June 4, 2021. For the dividend paid for the fiscal year 2020, the total amount paid to us was in Renminbi.
- (10) On June 10, 2021, we announced a dividend of US\$1.70 per ordinary share amounting to a total of US\$69.5 million for fiscal year 2020. The dividend was paid in cash to our shareholders on July 8, 2021.
- (11) The dividend declared by Yuchai for fiscal year 2021 has been approved for payment by Yuchai's Board of Directors. It will be paid to us upon the issuance of Yuchai's audited financial statements for fiscal year 2021 and approved by Yuchai's shareholders.

Risk Factors

The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. Adverse economic developments in China or in the global economy could have a material adverse effect on our financial condition, results of operations, business or prospects.

Our operations and performance depend significantly on economic conditions in China and globally. During periods of economic expansion, the demand for trucks, construction machinery and other applications of diesel engines generally increases. Conversely, uncertainty about current global economic conditions or adverse changes in the economy could lead to a significant decline in the diesel engine industry which is generally adversely affected by a decline in demand.

Political and social unrest and instability in the geopolitical environment, such as past unrest in Southeast Asia, the Middle East, the Russia-Ukraine conflict or geopolitical tensions in the Asia Pacific region, which threaten to disrupt economic recovery and growth in Asia.

In addition, the performance of the Chinese economy affects, to a significant degree, our financial condition, results of operations, business and prospects. Uncertainty and adverse changes in the Chinese economy could also increase costs associated with developing our products, increase the cost and decrease the availability of potential sources of financing, and increase our exposure to material losses from our investments, any of which could have a material adverse impact on our financial condition and operating results.

The business and prospects for the diesel engine industry, and thus the business and prospects of our company, may be adversely affected by changes in relevant policies in China.

The diesel engine business in China is dependent in large part on relevant government policies. As a result, our financial condition, results of operations, business and prospects could be adversely affected by changes in government policies in China.

Our business is dependent on the state of the commercial vehicle market in China. According to CAAM, the sales of commercial vehicles have experienced fluctuations over the years primarily as a result of government incentives and subsidies introduced from time to time as well as the replacement cycle of commercial vehicles. In recent years, the diesel engine market was affected by factors such as China's anti-overloading policy, diminishing use of the trans-cities highway transportation system in favor of rail transport and the implementation of National VI emission standards and the forthcoming implementation of Tier-4 emission standards. In past years, incentives have been introduced in China to encourage purchases of electric-powered vehicles to curb air pollution in major cities, resulting in increased sales of electric-powered commercial vehicles. As a result of these initiatives, combustion bus engine sales volume in China and our sales volume of bus engines had gradually decreased over the last few years. As announced by China's Ministry of Finance, China will cut purchase subsidies for new-energy vehicles, a category that includes electric vehicles, by 30% in 2022 and at the end of 2022, the purchase subsidies will be eliminated completely. For details, see "Item 5. Operating and Financial Review and Prospects — Overview."

In recent years, the government policies in China have encouraged energy conservation and carbon reduction. Following China's announcement in September 2020 that China intends to hit peak carbon emissions by 2030 and carbon neutrality by 2060, we have seen the development of policies relating to this topic across different sectors issued by ministerial or other levels of the government in China. According to China's 14th Five Year Plan covering 2021 to 2025 adopted in March 2021, China seeks to reduce energy consumption (in terms of GDP per unit of energy) by 13.5% and carbon emissions by 18% by 2025, and also commits the government in broad terms to formulate an action plan for peaking carbon dioxide emissions before 2030 and to anchor efforts to achieve carbon neutrality by 2060. China also seeks to boost the share of non-fossil sources in its energy mix to around 20% by 2025. In October 2021, China released the working guidance for carbon dioxide peaking and carbon neutrality implementation and its action plan for carbon dioxide peaking before 2030. Such policy changes may de-emphasize the use of diesel engines and encourage increased use of cleaner energy alternatives, and any such changes will adversely affect our financial condition, results of operations, business or prospects. The government incentive schemes have, from time to time contributed to an increase in our engine sales in the past. However, since government incentive schemes may be changed from time to time, there can be no assurance that sales of our engines will continue to grow at the same compound annual growth rate as in the past or at all.

Outbreaks of communicable diseases may materially and adversely affect our business, financial condition and results of operations.

We face risks related to health epidemics or outbreaks of communicable diseases, including the ongoing COVID-19 pandemic.

Since the beginning of 2020, the COVID-19 pandemic has resulted in temporary closure of many manufacturing facilities and factories across China and the world. As China adheres to a zero-COVID-19 policy, we may experience increased supply lead time, supply disruption and limited transport and shipment options from and to affected regions from time to time. We cannot assure you that the development of COVID-19 pandemic will not lead to our factory closures, workforce shortages, supply chain disruptions, transportation disruptions or similar consequences in the future. The duration of such business disruption and the resulting financial and operational impact cannot be reasonably estimated at this time.

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Although the COVID-19 pandemic is slowing with the widespread availability of COVID-19 vaccines around the world, the COVID-19 pandemic may not be contained in the near future, or at all, and a similar outbreak could occur again. The extent to which the COVID-19 pandemic may continue to affect our business will depend on continued developments, which are uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, we may continue to suffer an adverse effect to our business due to its global economic effect, including any economic recession.

In general, our business had in the past and in the future could be adversely affected by the outbreak of other communicable diseases, such as severe acute respiratory syndrome (SARS), the H1N1 and H5N1 influenza viruses, Ebola or Zika fever. Such communicable diseases could result in a widespread health crisis that could adversely affect general commercial activity and the economies and financial markets of many countries, as well as our business, financial condition or results of operations.

Our financial condition, results of operations, business and prospects may be adversely affected if we are unable to implement the Reorganization Agreement and the Cooperation Agreement.

We own 76.4% of the outstanding shares of Yuchai, and one of our primary sources of cash flow continues to be our share of the dividends, if any, paid by Yuchai and investment earnings thereon. As a result of the agreement reached with Yuchai and its related parties pursuant to the July 2003 Agreement, we discontinued legal and arbitration proceedings initiated by us in May 2003 relating to difficulties with respect to our investment in Yuchai. In furtherance of the terms of the July 2003 Agreement, we, Yuchai and Coomber Investments Limited, or Coomber, entered into the Reorganization Agreement in April 2005, as amended in December 2005 and November 2006, and agreed on a restructuring plan intended to be beneficial to our shareholders. In June 2007, we, along with Yuchai, Coomber and the GY Group, entered into the Cooperation Agreement. The Cooperation Agreement amends certain terms of the Reorganization Agreement and, as so amended, incorporates the terms of the Reorganization Agreement. Pursuant to the amendments to the Reorganization Agreement, the Company has agreed that the restructuring and spin-off of Yuchai will not be effected, and, recognizing the understandings that have been reached between the Company and the GY Group to jointly undertake efforts to expand the business of Yuchai, the Company will not seek to recover the anti-dilution fee of US\$20 million that was due from Yuchai. For more information on these agreements see “Item 4. Information on the Company — History and Development.” No assurance can be given as to when the business expansion requirements relating to Yuchai as contemplated by the Reorganization Agreement and the Cooperation Agreement will be fully implemented, or that implementation of the Reorganization Agreement and the Cooperation Agreement will effectively resolve all of the difficulties faced by us with respect to our investment in Yuchai.

In addition, the Reorganization Agreement contemplates the continued implementation of our business expansion and diversification plan adopted in February 2005. One of the goals of this business expansion and diversification plan is to reduce our financial dependence on Yuchai. Subsequently, we acquired strategic stakes in HLGE and TCL (which we have since substantially divested). See “Item 5. Operating and Financial Review and Prospects — Business Expansion and Diversification Plan.” Nonetheless, no assurance can be given that we will be able to successfully expand and diversify our business. We may also not be able to continue to identify suitable acquisition opportunities, secure funding to consummate such acquisitions or successfully integrate such acquired businesses within our operations. Any failure to implement the terms of the Reorganization Agreement and Cooperation Agreement, including our continued expansion and diversification, could have a material adverse effect on our financial condition, results of operations, business or prospects. Additionally, although the Cooperation Agreement amends certain provisions of the Reorganization Agreement and also acknowledges the understandings that have been reached between us and the GY Group to jointly undertake efforts to expand and diversify the business of Yuchai, no assurance can be given that we will be able to successfully implement those efforts or as to when the transactions contemplated therein will be consummated.

We have in the past experienced and may in the future experience disagreements and difficulties with the shareholders in Yuchai.

Although we own 76.4% of the outstanding shares of Yuchai, and believe we have proper legal ownership of our investment and a controlling financial interest in Yuchai, in the event there is a dispute with Yuchai’s shareholders regarding our investment in Yuchai, we may have to rely on law for remedies. We have in the past experienced problems from time to time in obtaining assistance and cooperation of Yuchai’s shareholders in the daily management and operation of Yuchai. We have in the past also experienced problems from time to time in obtaining the assistance and cooperation of the GY Group in dealing with various matters, including the implementation of corporate governance procedures, the payment of dividends, the holding of Yuchai board meetings and the resolution of employee-related matters. Examples of these problems are described elsewhere in this Annual Report. The July 2003 Agreement, the Reorganization Agreement and the Cooperation Agreement are intended to resolve certain issues relating to our share ownership in Yuchai and the continued corporate governance and other difficulties which we have had with respect to Yuchai. As part of the terms of the Reorganization Agreement, Yuchai agreed that it would seek the requisite shareholder approval prior to entering into any material transactions (including any agreements or arrangements with parties related to Yuchai or any of its shareholders) and that it would comply with its governance requirements. Yuchai also acknowledged and affirmed the Company’s continued rights as majority shareholder to direct the management and policies of Yuchai through Yuchai’s Board of Directors. Yuchai’s Articles of Association have been amended and such amended Articles of Association as approved by the Guangxi Department of Commerce on December 2, 2009, entitle the Company to elect nine of Yuchai’s thirteen directors, thereby reaffirming the Company’s right to effect all major decisions relating to Yuchai. While Yuchai has affirmed the Company’s continued rights as Yuchai’s majority shareholder and authority to direct the management and policies of Yuchai, no assurance can be given that disagreements and difficulties with Yuchai’s management and/or Yuchai’s Chinese shareholders will not recur, including implementation of the Reorganization Agreement and the Cooperation Agreement, corporate governance matters or related party transactions. Such disagreements and difficulties could ultimately have a material adverse impact on our consolidated financial position, results of operations and cash flows.

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We have previously identified material weaknesses in our internal control over financial reporting and cannot assure you that material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements in the future, or cause us not to be able to provide timely financial information, which may cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

We reported material weaknesses in our internal control over financial reporting as of December 31, 2005 to 2011, and our management concluded that our disclosure controls and procedures and our internal control over financial reporting were not effective for that period. However, since the year ended December 31, 2012, we have not identified any material weaknesses in our internal control over financial reporting. Our management concluded that our disclosure controls and procedures and our internal control over financial reporting were effective for the financial years ended December 31, 2012 to 2021. See “Item 15. Controls and Procedures.” Our independent registered public accounting firm has expressed an unqualified opinion on the effectiveness of our internal control over financial reporting for the financial years ended December 31, 2012 to 2021.

We cannot assure you that material weaknesses or significant deficiencies in our internal control over financial reporting will not be identified in the future. Any failure to maintain or improve existing controls or implement new controls could result in material weaknesses or significant deficiencies and cause us to fail to meet our periodic reporting obligations, which in turn could cause our shares to be delisted or suspended from trading on the New York Stock Exchange (“NYSE”). In addition, any such failure could result in material misstatements in our financial statements and require us to restate our financial statements and adversely affect the results of annual management evaluations regarding the effectiveness of our internal control over financial reporting. Any of the foregoing could cause investors to lose confidence in our reported financial information, leading to a decline in our share price.

We depend on and expect to continue to depend on our largest customers for a significant percentage of our sales.

In 2021, our sales to our top five customers accounted for 49.1% of our total revenue. Our top customer is a leading automobile manufacturer group in China. This group includes one of the largest automobile companies in China and other affiliated or controlled diesel truck manufacturers. In 2021, sales to our top customer as a group accounted for 25.1% of our total revenue, including 11.7% to one entity within the group. Although we consider our relationship with our top customers to be good, the loss of one or more of our top customers, whether singly or combined together, would have a material adverse effect on our financial condition, results of operations, business or prospects.

As we are dependent on the purchases made by our top customers from us, we have exposure to their liquidity arising from the high level of accounts receivable from them. We cannot assure you that our top customers will be able to repay all the money they owe to us. In addition, our top customers may not be able to continue purchasing the same volume of products from us, which would reduce our overall sales volume.

Our top customer also competes with us in the diesel engine market in China. Although we believe that the companies within our top customer’s group generally make independent purchasing decisions based on end-user preferences, we cannot assure you that truck manufacturers affiliated with our top customer will not preferentially purchase diesel engines manufactured by companies within our top customer’s group over those manufactured by us.

Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.

The diesel engine industry in China is highly competitive. We expect competition to intensify as a result of:

- improvement in competitors' products;
- increased production capacity of competitors;
- increased utilization of idle capacity by competitors;
- price competition;
- increased emphasis on new-energy vehicles; and
- consolidations in the diesel engine industry.

In addition, we believe that there has been excess capacity in the diesel engine industry in the past, from time to time resulting from fluctuations in market demand. For example, market demand fluctuated between 2010 and 2017 as a result of, among other things, stimulus measures in China to counter the effects of the 2008 global financial crisis, investment in capacity expansion by our competitors, the phasing out of incentives in China for car purchases, the introduction of policies to restrict automotive growth in Beijing and other major cities, pre-buying of commercial vehicles prior to the implementation of new emission standards in China and incentives to encourage purchases of electric-powered vehicles. For more details, see "Item 5. Operating and Financial Review and Prospects — Overview."

Any excess capacity or decrease in demand in the diesel engine industry in the future could lead to a decrease in prices in the diesel engine market and as we and our competitors compete through lower prices, this could adversely impact our revenues, margins and overall profitability. Furthermore, if restrictions and tariffs on the import of motor vehicles and motor vehicle parts into China are reduced, foreign competition could increase significantly. An increase in competition as a result of these various factors operating singly or together may adversely affect our financial condition, results of operations, business or prospects as a result of lower gross margins, higher fixed costs or decreasing market share.

Our long-term business prospects will depend largely upon our ability to develop and introduce new or improved products in response to market demands at competitive prices. Our competitors in the diesel engine markets may be able to introduce new or improved engine models that are more favorably received by customers. Competition in the end-user markets, mainly the truck market, may also lead to technological improvements and advances that render our current products obsolete at an earlier than expected date, in which case we may have to depreciate or impair our production equipment more rapidly than planned. Failure to introduce or delays in the introduction of new or improved products at competitive prices could have a material adverse effect on our financial condition, results of operations, business or prospects.

In addition, any consolidations or alliances in our industry may result in more competition for us from the resulting larger companies. Concentration within our industry, or other potential moves by our competitors, could improve their competitive position and market share and may exert further pricing pressure on us. Any consolidation or alliances in our industry involving our key suppliers or customers may adversely affect our existing relationships and arrangements with them. The loss of one or more of our key suppliers or customers due to consolidation in our industry or otherwise could have a material adverse effect on our business, financial condition and results of operations.

China's vehicle industry is experiencing changes under initiatives and preferential policies in China to develop energy saving and new energy vehicles. It may lead to decrease in demand for our engines affecting our market share and profitability.

China has promoted the development of energy saving and new energy vehicles, or NEVs, for its vehicle industry through policy actions. NEVs are defined as vehicles powered by alternative sources of energy instead of fossil fuel-powered engines, such as the diesel and natural gas engines that we produce. NEVs include hybrid, pure electric vehicles, fuel cell electric vehicles and other alternative energy-powered vehicles.

These policies in China have set specific industrialization goals for NEVs and plug-in hybrid vehicles, in terms of annual and cumulative production and sales. In addition, a series of supporting subsidies and preferential policies have been implemented to support the NEVs industry in a holistic manner. To shift commercial vehicle market from being "policy-driven" to "market-driven", China has gradually reduced purchase subsidies for NEVs in recent years and is expected to completely phase out such subsidies by the end of 2022, while still emphasizing accelerated growth of the NEVs industry in the future. In addition, China is exempting the purchase tax on NEVs. The subsidy scheme has resulted in increased sales of electric-powered commercial vehicles in China. In 2021, China's NEVs reached a turning point with sales of 3.52 million units, exceeding the total of the previous three years. Industry expects total NEVs sales in years of 2021 to 2025 to reach 10 million units. The development of NEVs has mainly affected the combustion engine sales volume in the Chinese passenger vehicle engine market, with an estimated impact on the commercial vehicles engine market of 166,000 units in 2021, according to CAAM.

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China will continue to support the consumption of NEVs, according to a government work report delivered in March 2022. If the market for electric-powered vehicles continues to develop or develops more quickly than we expect, the additional competition resulting from the growing NEV development could reduce demand for our diesel engines, which could adversely affect our business, financial condition, results of operations and prospects. For information on Yuchai's new energy products, see "Item 4. Information on the Company – Business Overview – Products and Product Development – New Energy Products."

If we are not able to continually improve our existing engine products and develop new engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects will be adversely affected.

As the diesel engine industry in China is highly competitive and continues to develop, we will have to continually improve our existing engine products, develop new engine products and enter into new markets in order to remain competitive. As a result, our long-term business prospects will largely depend upon our ability to develop and introduce new or improved products at competitive prices and enter into new markets. Future products may utilize different technologies and may require knowledge of markets that we do not currently possess. Moreover, our competitors may be able to introduce new or improved engine models that are more favorably received by customers than our products or enter into new markets with an early-entrant advantage. Any failure by us to introduce, or any delays in the introduction of, new or improved products at competitive prices or entering into new markets could have a material adverse effect on our financial condition, results of operations, business or prospects.

The technological requirements to comply with National VI standards have required us to deploy significant resources on improving major engine components, systems and after treatment systems which has led to increased costs. The high cost of rare metal supply has resulted in a more expensive exhaust after treatment system. If such cost increase cannot not be entirely transferred to our customers, the original equipment manufacturers ("OEMs"), it could adversely affect our margins and profitability.

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. Yuchai has a portfolio of diesel engines and natural gas engines. It also develops alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. There can be no assurance, however, that our activities to improve our existing engine products, develop new engine products and enter new markets will be successful or that our new or improved engine products, including the National VI and Tier-4 compliant engines that we have developed and expect to develop in the future, will be attractive or acceptable to customers. Our research and development efforts may not be successful and our new products, in particular our engines that meet the National VI and Tier-4 emission standards, may not address the needs of our current and prospective customers or achieve market acceptance. Moreover, competitors may be in the process of developing technology that could be developed more quickly or eventually become more profitable than our products. If our investments in research and development do not yield new technologies and products that we can successfully market and sell, our business, financial condition and results of operations may be adversely affected.

The development of a sustainable market for natural gas engines in China may be affected by many factors, some of which are beyond our control, including:

- the emergence of newer, more competitive technologies and products;
- the prices and availability of oil and natural gas in the future;
- the successful development of natural gas refueling infrastructure;
- the structure and implementation of government policies, including the availability of government incentives;
- consumer perceptions of the safety of natural gas engines; and
- consumer reluctance to adopt new products.

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize our business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render our planned product offerings obsolete, less competitive or less marketable. The process of developing our planned products is complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect our business, financial condition and operating results. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

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We have entered into several joint ventures in order to expand our product portfolio. There can be no assurance that our joint ventures will be successful or profitable.

We have entered into the following joint ventures in order to expand our product portfolio. We have entered into the following joint ventures:

- In August 2009, Yuchai reached an agreement with Jirui United Heavy Industry Co., Ltd., a joint venture of China International Marine Containers Group Ltd, Chery Automobile Co., Ltd. and Shenzhen City Jiushi Investment Management Co., Ltd. to establish Y&C Engine Co., Ltd. (“Y&C”) to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. The key focus of Y&C is the production of YC6K diesel engines. Y&C has a production facility which is capable of producing 30,000 units of YC6K engines in a single shift operation. Y&C has upgraded the YC6K engine to be National VI emission standards compliant. Y&C production has covered the 6K12 and 6K13 engine families for on-road and off-road as well as marine applications. For 2021, both production and engine sales of Y&C reached 25,000 units.
- On February 19, 2016, we announced that Yuchai had entered into an agreement with MTU Friedrichshafen GmbH (“MTU”), a subsidiary of Rolls-Royce Power Systems, to set up a 50-50 joint venture, for the production, under license from MTU, of MTU diesel engines in China. The joint venture entity, MTU Yuchai Power Company Limited, was incorporated on January 18, 2017 and is based at Yuchai’s primary manufacturing facilities in Yulin. The joint venture produces MTU Series 4000 diesel engines compliant with Tier-3 emission standards and power outputs ranging from 1,400 to 3,490 kW, primarily for the Chinese off-road market, in particular for power generation and oil and gas applications. On April 9, 2018, the joint venture announced the launch of its first MTU Series 4000 engines produced in China. MTU Yuchai engine production was 200 units, and engine sales reached 250 units in 2020. In 2021, MTU Yuchai produced over 450 units of MTU Series 4000 engine for the power generation market. In March 2022, MTU Yuchai produced its 1,000th unit of MTU Series 4000 engine.
- On August 28, 2018, we announced that a Yuchai subsidiary had entered into an agreement with Eberspaecher Exhaust Technology International GmbH (“Eberspaecher”) to set up a joint venture to develop, produce and market new exhaust emission control systems for trucks, buses, farming equipment and industrial machinery to meet the National VI emission standards. The joint venture entity, Eberspaecher Yuchai Exhaust Technology Co., Ltd., was incorporated on December 5, 2018, with Eberspaecher and the Yuchai subsidiary holding 51% and 49% interests, respectively. The joint venture commenced trial production in late 2019 and continued to ramp up production since 2020.
- On September 23, 2021, we announced that Yuchai had entered into an agreement with the Government of Nanning Municipality to research, develop and construct new production capacity for new energy technologies including fuel cell systems, range extenders, hybrid power and electric drive systems. Yuchai has established a wholly owned subsidiary, Yuchai Xin-Lan New Energy Power Technology Co., Ltd. (“Yuchai Xin-Lan”) as the main investment vehicle for the construction of the Yuchai Xin-Lan New Energy Power Project. In October 2021, Yuchai Xin-Lan entered into a cooperation agreement with Beijing Xing Shun Da Bus Co., Ltd. and subsequently in February 2022 set up Yuchai Xingshunda New Energy Technology Co., Ltd. which will combine the resources of both partners to accelerate the development, manufacturing and sale of fuel cell powertrain systems as well as core fuel cell power system components for the Beijing, Tianjin and Hebei markets.

There can be no assurance that our joint ventures will be successful or profitable. We have recognized impairment losses in the past related to our investments in the joint ventures and may do so again in the future. We review our investments in these joint ventures on an ongoing basis and may take such action as is deemed strategically appropriate including but not limited to divestment and shareholding changes.

Our financial condition, results of operations, business or prospects may be adversely affected to the extent we are unable to continue our sales growth.

In 2019, engine sales were 376,148 units, a 0.1% increase compared with 2018. In 2020, engine sales were 430,320 units, a 14.4% increase compared with 2019. In 2021, engines sales were 456,791 units, a 6.2% increase compared to 2020. We cannot assure you that we will be able to maintain or increase engine sales in the future. For example, we may not be able to maintain or increase our engine sales or revenue commensurate with our increased levels of production capacity. Moreover, our future growth is dependent in large part on factors beyond our control, such as the continued growth and stability of the global and Chinese economies. See “Item 3. Key Information — Risk Factors — The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. Adverse economic developments in China or in the global economy could have a material adverse effect on our financial condition, results of operations, business or prospects.” In addition, we cannot assure you that we will be able to properly manage any future growth, including:

- obtaining the necessary supplies, including the availability of raw materials;
- hiring and training skilled production workers and management personnel;
- manufacturing and delivering products for increased orders in a timely manner;
- maintaining quality standards and prices;
- controlling production costs; and
- obtaining adequate funding on commercially reasonable terms for future growth.

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Furthermore, we have acquired in the past, and may acquire in the future, equity interests in engine parts suppliers and logistics and marketing companies. If we are unable to effectively manage or assimilate these acquisitions, our financial condition, results of operations, business or prospects could be adversely affected.

Our business could be affected by increases in costs, disruption of supply or shortage of raw materials.

We may experience increases in the cost of or a sustained interruption in the supply or shortage of commodities, raw materials and other inputs used by us and our suppliers in our and their businesses and products, such as steel and semiconductor chips, which could adversely affect our future profitability or our ability to timely execute its business plan. The prices for these materials fluctuate and the available supply of these materials may be unstable, depending on market conditions, fluctuations in global demand, including as a result of increased production from our competitors and geopolitical risk and other economic and political factors. In particular, a global semiconductor chip supply shortage has had, and is continuing to have, wide-ranging effects across multiple industries, particularly the automotive industry. Any such increase, supply interruption or shortage could materially and negatively impact our business, prospects, financial condition and operating results.

We could be exposed to the impact of interest rates and foreign currency movements with respect to our future borrowings and business.

We may use borrowings from time to time to supplement our working capital requirements and to fund our continued business expansion plans. A portion of our borrowings may be structured on a floating rate basis and denominated in US dollar, Singapore dollar or Renminbi. Due to recent increases in inflation, on March 16, 2022 the U.S. Federal Reserve approved a 0.25 percentage point interest rate increase, and anticipates to raise its benchmark interest rates throughout the year. An increase in the federal benchmark rate could result in an increase in market interest rates. An increase in interest rates could make it more difficult to obtain the financing necessary to meet these working capital and financing requirements on favorable terms. Any fluctuations in interest rates, or fluctuations in exchange rates between the Renminbi or Singapore dollar and US dollar, may increase our funding costs or the availability of funding. This could affect our financial condition, results of operations, business or prospects.

Our financial condition, results of operations, business or prospects could also be adversely affected by a devaluation of the Renminbi. The value of the Renminbi is subject to changes in monetary policy in China and to international economic and political developments. Since we may not be able to hedge effectively against Renminbi or Singapore dollar fluctuations, future movements in the exchange rate of the Renminbi, the Singapore dollar and other currencies could have an adverse effect on our business, financial condition and results of operations.

If China's inflation increases or the prices of energy, raw materials or components increase, we may not be able to pass the resulting increased costs on to our customers and this may adversely affect our profitability or cause us to suffer operating losses.

According to the National Bureau of Statistics, the annual inflation rate in China for 2019, 2020 and 2021 was 2.9%, 2.5% and 0.9%, respectively. An increase in inflation could cause our costs for parts and components, labor costs, raw materials and other operating costs to increase, which would adversely affect our financial condition and results of operations. We have been adversely impacted by increases in raw material costs. For example, our gross margin decreased to 13.9% for the year ended December 31, 2021, as compared with 15.5% for the year ended December 31, 2020 due in part to higher material costs. The implementation of National VI and Tier-4 emission standards may also reduce the supply or increase the price of components for our engines which are compliant with National IV, National V and/or Tier-3 emission standards, which could in turn increase our production costs or reduce our inventory of engines available for export.

We are subject to increasingly stringent policies and regulations related to climate change and environmental protection.

Our operations and products are subject to national and local environmental protection laws and regulations in China which govern emission to noise, air, release to soil and discharge to water, treatment and disposal of non-hazardous and hazardous waste materials. The Chinese regulations currently impose environmental taxes for the discharge of waste substances, require the payment of fines for pollution and provide for the closure of any facility that fails to comply with orders requiring us to cease or improve upon certain activities causing environmental damage. Due to the nature of our business, we produce certain amounts of waste water, waste gas, and solid waste materials during the course of our production. We believe our environmental protection facilities and systems are adequate for us to comply with the existing national, provincial and local environmental protection regulations. The potential liabilities, sanctions, damages and remediation efforts related to any non-compliance with such laws and regulations could negatively impact our ability to conduct our operations and our financial condition and results of operations.

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Regulations in China have been steadily tightening the limits on permissible emission from on-road and off-road transportation, for instance, the mandatory implementation of National VI emission standards and the forthcoming implementation of Tier-4 emission standards. While Yuchai produces diesel engines compliant with the current emission standards in both the off-road and on-road markets, Yuchai may be required to increase its research and development expenditures in order to meet the increasingly stringent emission standards, and there can be no assurance that Yuchai will be able to comply with applicable 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. In addition, if environmental regulations, including electric vehicle energy consumption standards and vehicle emission standards, become significantly stricter in other markets where our engines are sold, it could adversely affect demand for our engines, which in turn could materially and adversely affect our business, financial condition, results of operations, and prospects.

There is increasing scrutiny and changing expectations from regulators, investors, lenders and other market participants with respect to environmental, social and governance (“ESG”) policies. For example, in March 2022, the U.S. SEC proposed new requirements that would impact climate-related disclosures that U.S. public companies and foreign private issuers would have to make in accordance with Sections 13(a) and 15(d) of the Exchange Act. Members of the investment community are also increasing their focus on ESG disclosures, including disclosures related to greenhouse gases and climate change in the energy industry in particular, and diversity and inclusion initiatives and governance standards among companies more generally. As a result, we may face increasing pressure regarding our ESG disclosures. In the future, we may incur additional costs and require additional resources to monitor, report and comply with wide ranging ESG requirements. If we fail to comply with present or future environmental laws and regulations, we may be required to pay substantial fines, suspend production or cease operations, or be subjected to other sanctions.

New National VI and Tier-4 emission standards for diesel engines manufactured in China may adversely affect our results of operations and financial condition.

The manufacture of our engines is regulated by the MEE and other authorities in China. National VI and Tier-4 emission standards have adopted the latest internal combustion engine manufacturing technologies in China that Yuchai had to develop and build up anew. These new emission standards impose a series of emission tests, not only in the manufacturing processes but also ongoing emission tests on the road after engine installation by a remote emission monitoring system or other monitoring systems.

In addition to regulatory requirements, many of our engines involve technically complex manufacturing processes and require a supply of highly specialized engine component parts. For some products and component parts, we may also rely on a single source of supply. The combination of these factors means that supply is never guaranteed. Like some of our competitors, we may face manufacturing issues from time to time. If we or our third party suppliers fail to comply fully with regulations, then there could be a product recall or other shutdown or disruption of our production activities. There can be no assurance that we will not experience supply interruptions for our products in the future. The implementation of National VI and Tier-4 emission standards may also reduce the supply or increase the price of components for our engines compliant with National IV, National V and/or Tier-3 emission standards, which could in turn increase our production costs or reduce our inventory of engines available for export.

International trade policy dynamics may adversely affect our business.

Our operations expose us to the risk that increased trade protectionism will adversely affect our business. In the United States, there is significant uncertainty about the future relationship between the United States and other exporting countries, including with respect to trade policies, treaties, government regulations and tariffs. Any increased trade barriers or restrictions on trade, especially trade with China, could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations.

In 2018 and 2019 under former U.S. President Donald J. Trump’s administration, the United States imposed various tariffs on Chinese products and threatened further tariffs. In response, China imposed tariffs on certain U.S. goods, and threatened qualitative measures that would affect U.S. businesses operating in China. On December 13, 2019 the U.S. and China reached a limited agreement, which avoided the imposition of additional tariffs and on January 15, 2020, the U.S. and China signed a “phase one” trade deal pursuant to which, among other things, the U.S. agreed to modify existing tariffs. Although certain of these were subsequently withdrawn by current U.S. President Joe Biden’s administration, there can be no assurances that the U.S. or China will not increase tariffs or impose additional tariffs in the future, and rising trade, political and regulatory tension between the United States and China in the future could reduce levels of trades, investments and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets.

Political tensions between the U.S. and China have also escalated in recent times. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

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Any political or trade controversies, or political events or crises, between the United States and China or proxies thereof, whether or not directly related to our business, could reduce the price of our ordinary shares since we are a U.S. listed company with significant operations in China.

Our insurance coverage may not be adequate to cover risks related to our production and other operations.

The amount of our insurance coverage for our buildings and equipment is at cost which could be less than replacement value. The amount of our insurance coverage for our inventory is at book value which could be less than replacement value. In accordance with what we believe is customary practice among industrial equipment manufacturers in China, we insure high risk assets, such as certain property and equipment with high value. The amount of our insurance coverage of our facilities and inventory is in line with Chinese market practice but may expose us to risks in the event of a major accident where our insurance recovery may be inadequate. We also carry public liability insurance to cover claims in respect of bodily injury and property damage to any third party arising from accidents on our property or relating to our operations. We do not carry business interruption insurance as such coverage is not customary in China. From time to time, we will review the adequacy of our insurance coverage. Nevertheless, losses incurred or payments required to be made by us which are not fully insured could have a material adverse effect on our financial condition.

Increases in labor costs and enforcement of stricter labor laws and regulations in China may adversely affect our business and our profitability.

China's overall economy and the average wage in China have increased in recent years. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will increase. Unless we are able to pass on these increased labor costs to those who pay for our services, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees, limitation with respect to utilization of labor dispatching, labor protection and labor condition and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

We are dependent on information technology and our systems and infrastructure face certain risks, including cybersecurity risks and data leakage risks.

We are dependent on information technology systems and infrastructure. We cannot be certain that advances in criminal capabilities (including cyber-attacks or cyber intrusions over the internet, malware, computer viruses and the like), discovery of new vulnerabilities or attempts to exploit existing vulnerabilities in our or third-party systems, other data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting our systems or the systems and networks of third parties that access and store sensitive information about us or our customers or suppliers. Cyber threats, such as phishing and trojans, could intrude into our or a third party's network to steal data or to seek sensitive information about us or our customers or suppliers. Any intrusion into our or such third party's network (to the extent attributed to us or perceived to be attributed to us) that results in any breach of security could cause damage to our reputation and adversely impact our business and financial results. A significant failure in security measures could have a material adverse effect on our business, reputation, results of operations and financial condition. Although we seek to implement measures to protect sensitive and confidential client data, there can be no assurance that we would be able to prevent breaches of security.

As an exempted company incorporated under Bermuda law, our operations may be subject to economic substance requirements.

On December 5, 2017, following an assessment of the tax policies of various countries by the Code of Conduct Group for Business Taxation of the European Union (the "COCG"), the Council of the EU approved and published Council conclusions containing a list of non-cooperative jurisdictions for tax purposes (the "Conclusions"). Although not considered so-called "non-cooperative jurisdictions", certain countries, including Bermuda, were listed as having "tax regimes that facilitate offshore structures which attract profits without real economic activity." In connection with the Conclusions, and to avoid being placed on the list of "non-cooperative jurisdictions", the government of Bermuda, among others, committed to addressing COCG proposals relating to economic substance for entities doing business in or through their respective jurisdictions and to pass legislation to implement any appropriate changes by the end of 2018.

The Economic Substance Act 2018 and the Economic Substance Regulations 2018 of Bermuda (the “Economic Substance Act” and the “Economic Substance Regulations”, respectively) became operative on December 31, 2018. The Economic Substance Act applies to every registered entity in Bermuda that engages in a relevant activity and requires that every such entity shall maintain a substantial economic presence in Bermuda. Relevant activities for the purposes of the Economic Substance Act include, among other things, conducting business as a holding entity, which may include a pure equity holding entity. The Economic Substance Regulations provide that minimum economic substance requirements shall apply in relation to an entity if the entity is a pure equity holding entity, which is an entity which as its primary function acquires and holds shares or an equitable interest in other entities, performs no commercial activity and which (a) holds the majority of the voting rights in another entity; (b) is a shareholder, member or partner in another entity and has the right to appoint or remove a majority of the board of directors, managers or equivalent of that other entity; or (c) is a shareholder, member or partner in another entity and controls alone, under an agreement with others, a majority of the voting rights in that other entity. The minimum economic substance requirements include (a) compliance with applicable corporate governance requirements set forth in the Bermuda Companies Act 1981 including keeping records of account, books and papers and financial statements; and (b) submission of an annual economic substance declaration form. However, the economic substance requirements do not apply to an entity which is a tax resident of a jurisdiction outside of Bermuda, provided that the jurisdiction is not in the EU list of non-cooperative jurisdictions for tax purposes. If we fail to comply with our obligations under the Bermuda Economic Substance Act or any similar law applicable to us in any other jurisdictions, we could be subject to financial penalties and spontaneous disclosure of information to foreign tax officials in related jurisdictions and may be struck from the register of companies in Bermuda or such other jurisdiction. Any of these actions could have a material adverse effect on our business, financial condition and results of operations.

In 2020, our Board or Directors, having considered the Bermuda economic substance legislation as well as the Company’s presence and substance in Singapore through our Singapore Branch office, approved a proposal for the Company to establish its tax residency in Singapore. A submission was made to the Inland Revenue Authority of Singapore or “IRAS” regarding the Company’s Singapore tax residency and the IRAS responded with a written confirmation that the Company is a tax resident in Singapore for Singapore income tax purposes for the calendar year 2020. The Singapore tax residency status is to be determined on a yearly basis. Going forward, we will be considered a Singapore tax resident company for a particular Year of Assessment if the control and management of our business is exercised in Singapore for the preceding calendar year. If the Company is not a tax resident of a jurisdiction outside of Bermuda (other than a jurisdiction which is on the EU list of non-cooperative jurisdictions for tax purposes), we may be subject to Bermuda’s Economic Substance Act, Economic Substance Regulations and/or any new economic substance regulations adopted in Bermuda. We may be subject to penalties if the Company or any of its subsidiaries fail to comply with the applicable economic substance laws.

Changes in tax laws or tax rulings could negatively impact our income tax provision and net income.

Changes in tax laws or tax rulings, or changes in interpretations of existing tax laws, could affect our income tax provision and net income or require us to change the manner in which we operate our business. There is also a high level of uncertainty in today’s tax environment stemming from both global initiatives put forth by the Organisation for Economic Co-operation and Development (the “OECD”) and unilateral measures being implemented by various countries due to a historic lack of consensus on these global initiatives. As an example, the OECD has put forth two proposals—Pillar One and Pillar Two—that revise the existing profit allocation and nexus rules (profit allocation based on location of sales versus physical presence) and ensure a minimal level of taxation, respectively. If these proposals are passed, it is possible that we will have to pay higher income taxes in countries where such rules are applicable.

Our controlling shareholder’s interests may differ from those of our other shareholders.

As of February 28, 2022, our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 18,270,965 or approximately 44.72%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. Hong Leong Asia controls us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 23.30% of the outstanding shares of our Common Stock and has, since August 2002, been the registered holder of the special share. Hong Leong Asia also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 21.42% of the outstanding shares of our Common Stock as of February 28, 2022. Hong Leong Asia is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, or Diesel Machinery, which, until its dissolution, was a holding company controlled by Hong Leong China and was the prior owner of the special share. Through HL Technology’s stock ownership and the rights accorded to the Special Share under our Bye-Laws and various agreements among shareholders, Hong Leong Asia is able to effectively approve and effect most corporate transactions. See “Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions — Shareholders Agreement.” In addition, our shareholders do not have cumulative voting rights. There can be no assurance that Hong Leong Asia’s actions will be in the best interests of our other shareholders. See also “Item 7. Major Shareholders and Related Party Transactions — Major Shareholders.”

We may experience a change of control as a result of sale or disposal of shares of our Common Stock by our controlling shareholders.

As described above, HL Technology, a subsidiary of Hong Leong Asia, owns 9,520,251 shares of our Common Stock, as well as the special share. If HL Technology reduces its shareholding to less than 7,290,000 shares of our Common Stock, our Bye-Laws provide that the special share held by HL Technology will cease to carry any rights, and Hong Leong Asia may as a result cease to have control over us. See “Item 7. Major Shareholders and Related Party Transactions — The Special Share.” If HL Technology sells or disposes of all of the shares of our Common Stock, we cannot determine what control arrangements will arise as a result of such sale or disposal (including changes in our management arising therefrom), or assess what effect those control arrangements may have, if any, on our financial condition, results of operations, business, prospects or share price.

In addition, certain of our financing arrangements have covenants requiring Hong Leong Asia to retain ownership of the special share and that we remain a principal subsidiary (as defined in such arrangements) of Hong Leong Asia. A breach of that covenant may require us to pay all outstanding amounts under those financing arrangements. There can be no assurance that we will be able to pay such amounts or obtain alternate financing.

The market price for our Common Stock may be volatile.

There continues to be volatility in the market price for our Common Stock. See “Item 9. The Offer and Listing.” The market price could fluctuate substantially in the future in response to a number of factors, including:

- our operating results whether audited or unaudited;
- the public’s reaction to our press releases and announcements and our filings with the SEC;
- changes in financial estimates or recommendations by stock market analysts regarding us, our competitors or other companies that investors may deem comparable;
- operating and stock price performance of our competitors or other companies that investors may deem comparable;
- political, economic, and social conditions in China;
- any negative perceptions about corporate governance or accounting practices at listed companies with significant operations in China;
- changes in general economic conditions, arising from a slowdown in the global economy in 2020 and beyond, escalation or continuation of trade tensions between the United States and China, heightened policy uncertainty especially regarding trade, financial market disruptions amid global financing conditions, and heightened geopolitical tensions globally, the economic effects from the withdrawal of the United Kingdom from the European Union, instability in the geopolitical environment as a result of the Russia-Ukraine conflict and increasing tensions in the Asia Pacific and communicable diseases such as SARS and COVID-19. See “Item 3. Key Information — Risk Factors — The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. Adverse economic developments in China or in the global economy could have a material adverse effect on our financial condition, results of operations, business or prospects;”
- China’s initiatives to develop energy saving and new energy vehicles, including hybrid, pure electric vehicles, fuel cell electric vehicles and other alternative energy-powered vehicles in China, which may lead to a decrease in demand for our diesel engines that affects our market share and profitability;
- future sales of our Common Stock in the public market, or the perception that such sales could occur; or
- the announcement by us or our competitors of a significant acquisition.

Any of the above factors either individually or together may result in market fluctuations which may materially adversely affect our stock price.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. Holders.

A non-United States corporation is considered a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the total value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. For this purpose, the total value of our assets generally will be determined by reference to the market price of our shares. We believe that our shares should not be treated as stock of a PFIC for United States federal income tax purposes for the taxable year that ended on December 31, 2021. However, there is no guarantee that the United States Internal Revenue Service will not take a contrary position or that our shares will not be treated as stock of a PFIC for any future taxable year. Our PFIC status will be affected by, among other things, the market value of our shares and the assets and operations of our company and subsidiaries. If we were to be treated as a PFIC for any taxable year during which a U.S. Holder (defined below) holds our shares, certain adverse United States federal income tax consequences could apply to the U.S. Holder. See “Item 10. Additional Information — Taxation — United States Federal Income Taxation — PFIC Rules.”

If a United States person is treated as owning at least 10% of our shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a United States person is treated as owning (directly, indirectly or constructively) at least 10% of the value or voting power of our Common Stock, such person may be treated as a “United States shareholder” with respect to each “controlled foreign corporation” (“CFC”) in our group (if any). If our group includes one or more U.S. subsidiaries, under recently-enacted rules, certain of our non-U.S. subsidiaries could be treated as CFCs regardless of whether we are or are not treated as a CFC (although there is currently a pending legislative proposal to significantly limit the application of these rules). A United States shareholder of a CFC may be required to annually report and include in its U.S. taxable income its pro rata share of “Subpart F income”, “global intangible low-taxed income” and investments in U.S. property by CFCs, whether or not we make any distributions. An individual that is a United States shareholder with respect to a CFC generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. A failure to comply with these reporting obligations may subject you to significant monetary penalties and may prevent the statute of limitations with respect to your U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist investors in determining whether any of our non-U.S. subsidiaries are treated as a CFC or whether such investor is treated as a United States shareholder with respect to any of such CFCs or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. The United States Internal Revenue Service provided limited guidance on situations in which investors may rely on publicly available alternative information to comply with their reporting and tax paying obligations with respect to foreign-controlled CFCs. A United States investor should consult its own advisors regarding the potential application of these rules to its investment in the Common Stock.

Changes in political or social conditions, government policies or regulations in China could have a material and adverse effect on our business and results of operations.

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Any adverse changes in economic conditions, policies, laws or regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, leading to reduction in demand for our products and adversely affect our competitive position.

Questions on the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings that could limit the level of legal protection available to investors. There can also be no assurance that we would promptly become aware of a violation of a policy or rule, if such decision is not published publicly or promptly notified to us. In addition, any failure by us to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

Our investment in Yuchai or elsewhere in China, are subject to PRC regulations. The PRC Foreign Investment Law, or the FIL, adopted on March 15, 2019 is the legal foundation governing us, a foreign investment enterprise, or the FIE. The FIL grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either “restricted” or “prohibited” from foreign investment in a “negative list”. The FIL provides that foreign-invested entities operating in “restricted” or “prohibited” industries will require market entry clearance and other approvals from relevant government authorities. There are questions on the interpretation and implementation of the FIL and relevant regulations, which may impact our current corporate governance practice and increase our compliance costs. For instance, we may be required to adjust the organizational form and corporate governance for certain of our PRC foreign-invested subsidiaries as required by any further implementing rules of the FIL. In addition, the FIL imposes information reporting requirements on foreign investors and foreign invested enterprises.

On December 19, 2020, with the approval of the State Council, the National Development and Reform Commission, or the NDRC, and the Ministry of Commerce, or the MOFCOM, issued the Measures for the Security Review of Foreign Investments, or the 2021 Security Review Measures, which took effect on January 18, 2021, with an intent to regulate foreign investments which raise “national defense and security” or “national security” concerns. Under the 2021 Security Review Measures, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, information technology, Internet products and services, financial services and technology sectors, are required to obtain approval from designated governmental authorities in advance. In the future, if we grow our business by acquiring complementary businesses that are within the scope of the 2021 Security Review Measures, complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the applicable authorities may delay or inhibit our ability to complete such transactions. It is unclear whether our business operates in an industry that raises “national defense and security” or “national security” concerns. If future interpretations or guidance issued by the NDRC and/or MOFCOM determine that our business is in an industry subject to the security review, our business operations and activities in China may be adversely affected.

We may not freely convert Renminbi into foreign currency, which could limit our ability to obtain sufficient foreign currency to satisfy our foreign currency requirements or to pay dividends to shareholders.

Substantially all of our revenues and operating expenses are generated by our Chinese operating subsidiary, Yuchai, and are denominated in Renminbi, while a portion of our indebtedness is, or in the future may be, denominated in US dollar and other foreign currencies. The Renminbi is currently freely convertible under the “current account,” which include dividend distributions, interest payments, trade and service-related foreign exchange transactions, but not under the “capital account” which include, among other things, foreign direct investment, overseas borrowings by Chinese entities and proceeds of overseas public offering by Chinese entities. Some of the conversions between Renminbi and foreign currency under the capital account are subject to the prior approval of the State Administration for Foreign Exchange, or SAFE.

Yuchai, as a foreign invested enterprise, may purchase foreign currency without the approval of SAFE for settlement of “current account transactions”, including payment of dividends, by providing commercial documents evidencing these transactions. Our Chinese operating subsidiary may also retain foreign exchange in its current account to satisfy foreign currency liabilities or to pay dividends. However, the relevant government authorities may limit or eliminate our Chinese operating subsidiary’s ability to purchase and retain foreign currencies in the future. Our Chinese operating subsidiary, therefore, may not be able to obtain sufficient foreign currency to satisfy its foreign currency requirements to pay dividends to us for our use in making any future dividend payments or to satisfy other foreign currency payment requirements. Foreign currency transactions under the capital account and foreign debt account continue to be subject to limitations and require registrations with and reviews from the designated foreign exchange banks and SAFE. This could affect our Chinese operating subsidiary’s ability to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. We cannot predict the effect of future changes in Renminbi and foreign currency regulations on our business, financial condition and results of operations.

We may be unable to obtain sufficient financing to fund our capital requirements which could limit our growth potential.

We believe that our cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. Financing may not be available to us on acceptable terms or at all. Our ability to obtain external financing is subject to various uncertainties, including the results of our operations, financial condition and cash flow, economic, political and other conditions in China, China’s policies relating to foreign currency borrowings and the condition of the Chinese and international capital markets. In July 2021, the PBOC cut the reserve requirement ratio for all banks by 50 basis points. In December 2021, the one-year loan prime rate was reduced from 3.8% to 3.7%, and the five-year loan prime rate was lowered from 4.65% to 4.6%. The PBOC pledged that stability would be a greater focus and “prudent monetary policies should be flexible and appropriate, and liquidity should be maintained at a reasonable and ample level.” Changes in interest rates and market liquidity conditions could have an adverse impact on our earnings and cash flows. A shortage of liquidity in the banking system or any other factor that results in our inability to access capital may adversely affect our business, financial condition, results of operations and prospects.

United States regulators may be limited in their ability to conduct investigations or inspections of our operations in China.

U.S. public companies that have or had a substantial portion of their operations in China, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. As we have substantial operations within China, the increased regulatory scrutiny focus on U.S.-listed companies with operations in China could add uncertainties to our business operations, share price and reputation.

On December 18, 2020, the Holding Foreign Companies Accountable Act, or the HFCAA was signed into law. The HFCAA includes requirements for the SEC to identify issuers whose audit work is performed by auditors that the Public Company Accounting Oversight Board, or PCAOB is unable to inspect or investigate completely because of a restriction imposed by a non-U.S. authority in the auditor's local jurisdiction. Additionally, in July 2020, the U.S. President's Working Group on Financial Markets issued recommendations for actions that can be taken by the executive branch, the SEC, the PCAOB or other federal agencies and department with respect to Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the United States. In response, on November 23, 2020, the SEC issued guidance highlighting certain risks (and their implications to U.S. investors) associated with investments in China-based issuers and summarizing enhanced disclosures the SEC recommends China-based issuers make regarding such risks. On December 2, 2021, the SEC adopted final rules relating to the implementation of certain disclosure and documentation requirements of the HFCAA. The SEC is assessing how to implement the requirements of the HFCAA, including the listing and trading prohibition requirements described above. Under the HFCAA, our securities may be prohibited from trading on the NYSE if our auditor is located in a foreign jurisdiction and the PCAOB determines that it is unable to inspect or investigate it completely for three consecutive years because of a position taken by an authority in the foreign jurisdiction, and this ultimately could result in our shares being delisted. Furthermore, on June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if enacted, would amend the HFCAA and require the SEC to prohibit an issuer's securities from trading on any U.S. stock exchanges if its auditor is not subject to PCAOB inspections for two consecutive years instead of three. On September 22, 2021, the PCAOB adopted a final rule implementing the HFCAA, which provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the PCAOB is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. We continue to monitor the implementation of the HFCAA and related developments.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies whose shares are publicly traded in the United States, is registered with the PCAOB. As a PCAOB registered firm, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with relevant U.S. laws and professional standards. On December 16, 2021, the PCAOB issued a Determination Report which found that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in: (1) mainland China of the People's Republic of China, because of a position taken by one or more authorities in mainland China; and (2) Hong Kong, a Special Administrative Region and dependency of the PRC, because of a position taken by one or more authorities in Hong Kong. This list does not include our auditor.

We continue to monitor the implementation of the HFCAA and related developments, including reports of dialogue among the China Securities Regulatory Commission, the SEC and the PCAOB regarding the inspection of PCAOB-registered accounting firms in China. There can be no assurance that we or our auditor will be able to comply with requirements imposed by U.S. regulators in the future. The market prices of our shares could be adversely affected as a result of possible negative impacts of the HFCAA and other similar rules and regulations.

If additional remedial measures are imposed on the Chinese affiliates of certain global accounting firms, including the “big four” accounting firms pursuant to administrative proceedings brought by the SEC against them, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934, as amended.

Starting in 2011 the Chinese affiliates of certain global accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese laws. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act against the Chinese accounting firms (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms, including a temporary suspension of their right to practice before the SEC, although that proposed penalty was subject to the pending review of the SEC Commissioner. On February 6, 2015, prior to the SEC Commissioner’s scheduled review, the firms reached a settlement with the SEC. Under the settlement, the SEC agreed that its future requests for the production of documents would normally be made to the CSRC. The firms would receive matching requests under Section 106 of the Sarbanes-Oxley Act, and are required to abide by a detailed set of procedures with respect to such requests, which in substance required them to facilitate production via the CSRC. If they fail to meet the specified criteria, the SEC retains the authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future non-compliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against the firm, or in extreme cases, the resumption of the current proceeding against all four “big four” accounting firms.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the final ending of the proceedings, the presumption is that all parties will continue to apply the same procedures i.e. the SEC will continue to make its requests for the production of documents to the CSRC, and the CSRC will normally process those requests applying the sanitization procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. law.

The HLGE group’s hotel ownership and management business may be adversely affected by risks inherent in the hotel industry.

The HLGE group operates Copthorne Hotel Cameron Highlands (“CHCH”), a hotel in Cameron Highlands, Malaysia. As of February 28, 2022, we had a 48.9% shareholding interest in HLGE, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited (the “Singapore Exchange”). See “Item 5. Operating and Financial Review and Prospects — Business Expansion and Diversification Plan” for further information on our investment in HLGE. Set forth below are risks related to our equity interest in HLGE.

The HLGE group’s financial performance is dependent on the performance of the hotel it operates. The HLGE group’s hotel ownership and management business are exposed to risks which are inherent in and/or common to the hotel industry and which may adversely affect the HLGE group’s financial performance, including the following:

- a decrease in occupancy rates as a result of a prolonged recovery of the hospitality, tourism and travel industries from the COVID-19 pandemic, and future outbreaks of communicable diseases (see “Item 3. Key Information — Risk Factors — Outbreaks of communicable diseases may materially and adversely affect our business, financial condition and results of operations.”);
- changes to the international, regional and local economic climate and market conditions (including but not limited to changes to regional and local populations, changes in travel patterns and preferences, and oversupply of or reduced demand for hotel rooms that may result in reduced occupancy levels and performance for the hotels it operates);
- changes to the political, economic, legal or social environments of the countries in which the HLGE group operates (including developments with respect to inflation or deflation, interest rates, currency fluctuations, governmental policies, real estate laws and regulations, taxation, fuel costs, expropriation, including the impact of the current global financial crisis);
- increased threat of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics that may affect travel patterns and reduce the number of travelers and tourists;

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- changes in laws and governmental regulations (including those relating to the operation of hotels, preparation and sale of food and beverages, occupational health and safety working conditions and laws and regulations governing its relationship with employees);
- competition from other international, regional and independent hotel companies, some of which may have greater name recognition and financial resources than the HLGE group (including competition in relation to hotel room rates, convenience, services or amenities offered);
- losses arising out of damage to CHCH, where such losses may not be covered by the insurance policies maintained by the HLGE group;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs, utility costs, insurance and unanticipated costs such as acts of nature and their consequences;
- fluctuations in foreign currencies arising from the HLGE group's various currency exposures;
- dependence on leisure travel and tourism; and
- adverse effects of a downturn in the hospitality industry, including the impact due to the COVID-19 pandemic.

The above factors may materially affect the performance of CHCH and the profitability and financial condition of the HLGE group. There can be no assurance that we will not suffer any losses arising from our investment in HLGE.

ITEM 4. INFORMATION ON THE COMPANY

History and Development

The Company

China Yuchai International Limited is a Bermuda holding company established on April 29, 1993 to own a controlling interest in Yuchai. We currently own, through six of our wholly-owned subsidiaries, 76.4% of the outstanding shares of Yuchai. We operate as an exempted company limited by shares under The Companies Act 1981 of Bermuda. Our registered office is located at 2 Clarendon House, Church Street, Hamilton HM11, Bermuda. On March 7, 2008, we registered a branch office of the Company in Singapore, located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581. Our principal operating office is located at 16 Raffles Quay #39-01A, Hong Leong Building, Singapore 048581. Our telephone number is (+65) 6220-8411. Our transfer agent and registrar in the United States is Computershare Inc., located at 480 Washington Blvd., 26th Floor Jersey City, NJ 07310.

Until August 2002, we were controlled by Diesel Machinery, a company that was 53.0% owned by Hong Leong Asia, through its wholly-owned subsidiary, Hong Leong China. Hong Leong China owns HL Technology which held shares in us through Diesel Machinery. Diesel Machinery was also 47.0% owned by China Everbright Holdings Company Limited, or China Everbright Holdings, through its wholly-owned subsidiary, Coomber. Hong Leong Asia, a company listed on the Singapore Exchange, is part of the Hong Leong Investment group, which was founded in 1941 by the Kwek family of Singapore and remains one of the largest privately-controlled business groups in Southeast Asia. In 2002, China Everbright Holdings and Coomber gave notice to Diesel Machinery and the other shareholders of Diesel Machinery to effect a liquidation of Diesel Machinery. As a result of the liquidation, Hong Leong Asia acquired the special share through HL Technology which entitles Hong Leong Asia to elect a majority of our directors and also to veto any resolution of our shareholders. China Everbright Holdings sold its shareholding in Coomber, which held shares of our Common Stock, in October 2002 to Goldman Industrial Limited, or Goldman, and China Everbright Holdings is no longer a shareholder of our company. Goldman was a subsidiary of Zhong Lin Development Company Limited, or Zhong Lin, an investment vehicle of the city government of Yulin in Guangxi, China until September 29, 2006 when Zhong Lin sold its shareholding in Goldman to the GY Group.

We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and we continue to have a team working full-time at Yuchai's principal manufacturing facilities in Yulin city. In addition, the President, Chief Financial Officer and a manager proficient in Section 404 of Sarbanes—Oxley Act of 2002, or SOX, travel frequently, usually monthly for as much as up to two weeks at a time, to Yuchai to actively participate in Yuchai's operations and decision-making process. Although the travel frequency has been reduced in the past two years due to cross-broader restrictions implemented to prevent the COVID-19 spread, we will gradually resume travel to Yuchai as China's restriction requirements continue to be lifted.

Our main operating asset has historically been, and continues to be, our ownership interest in Yuchai, and our primary source of cash flow has historically been our share of the dividends, if any, paid by Yuchai and investment income thereon. However, on February 7, 2005, the Board of Directors of the Company announced its approval of the implementation of a business expansion and diversification plan by the Company. Following such announcement, we have looked for new business opportunities to seek to reduce our financial dependence on Yuchai:

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- In March 2005, we acquired a 15.0% interest in the capital of TCL through Venture Delta Limited (“Venture Delta” or “VDL”). We have since divested the majority of our interest in TCL and as of December 31, 2021, we had a 0.18% interest in the outstanding ordinary shares of TCL, which has further reduced to 0.08% as of February 28, 2022. See “Item 3. Key Information – Selected Financial Data – Relating to our interest in TCL.”
- In February 2006, we acquired debt and equity securities in HLGE through two wholly-owned subsidiaries. Our shareholding in HLGE has changed through various transactions and as of December 31, 2012, we had a 48.9% interest in the outstanding ordinary shares of HLGE, which has remained unchanged as of February 28, 2022.

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

We have eight wholly-owned subsidiaries which directly hold investments in Yuchai, HLGE and TCL, as described below:

- Through our 76.4% interest in Yuchai held by six wholly-owned subsidiaries, we primarily conduct our manufacturing and sale of diesel engines which are mainly distributed in the PRC market.
- As of February 28, 2022, through our wholly-owned subsidiary, Grace Star, we had a 48.9% shareholding interest in HLGE. The HLGE group is engaged in hospitality and property development activities conducted mainly in Malaysia. For more details on our investments in HLGE, see “Item 5. Operating and Financial Review and Prospects — Business Expansion and Diversification Plan.”
- As of February 28, 2022, through our wholly-owned subsidiary, VDL, we had a 0.08% equity interest in TCL. We would consider disposing our remaining shareholding in TCL in due course.

Since January 1, 2021, there have been no public takeovers by third parties in respect of our shares, and we have not made any public takeovers in respect of other companies’ shares.

Yuchai

Yuchai was founded in 1951. Prior to 1984, Yuchai was a small producer of low-power diesel engines for agricultural machinery. In 1984, Yuchai introduced the earliest model of its YC6J diesel engine for medium-duty trucks. In July 1992, in order to raise funds for further expansion, Yuchai was restructured into a joint stock company. As a result of this restructuring, Yuchai was incorporated as a joint stock company in July 1992 and succeeded the machinery business of Yulin Diesel. All of Yulin Diesel’s businesses, other than its machinery business, as well as certain social service related operations, assets, liabilities and employees (for example, cafeterias, cleaning and security services, a hotel and a department store), were transferred to the GY Group. The GY Group also became the majority shareholder of Yuchai through its ownership stake of approximately 104 million shares of Yuchai, or GY Group Shares. In connection with its incorporation, Yuchai also issued seven million shares to various Chinese institutional investors, or Legal Person Shares.

In May 1993, in order to finance further expansion, Yuchai sold shares to the Company. Our initial shareholders, consisting of HL Technology, Sun Yuan Overseas (BVI) Ltd., or Sun Yuan BVI, the Cathay Investment Fund, Limited, or Cathay, GS Capital Partners L.P., and Coomber, then a wholly-owned subsidiary of China Everbright Holdings and, thus, controlled by China Everbright International Limited, or China Everbright International, made their initial investments in Yuchai in May 1993, when their respective wholly-owned subsidiaries purchased for cash in the aggregate 200 million newly-issued shares of Yuchai (51.3% of the then-outstanding shares of Yuchai). These shareholders exchanged with the Company their shareholdings in their wholly-owned subsidiaries, six companies which held Foreign Shares of Yuchai, for 20 million shares of our Common Stock (after giving effect to a 10-for-1 stock split in July 1994, or the Stock Split). In connection therewith, Yuchai became a Sino-foreign joint stock company and became subject to the laws and regulations relating to joint stock limited liability companies and Sino-foreign joint venture companies in China. Foreign Shares may be held by and transferred to non-Chinese legal and natural persons, subject to the approval of the Ministry of Commerce, the successor entity to the Ministry of Foreign Trade and Economic Cooperation of China, or MOFTEC. Foreign Shares are entitled to the same economic rights as GY Group Shares and Legal Person Shares. GY Group Shares are shares purchased with state assets by government departments or organizations authorized to represent state investment. Legal Person Shares are shares purchased by Chinese legal persons or institutions or social groups with legal person status and with assets authorized by the state for use in business.

In November 1994, we purchased from an affiliate of China Everbright Holdings 78,015,500 Foreign Shares of Yuchai in exchange for the issuance of 7,801,550 shares of our Common Stock (after giving effect to the Stock Split), or the China Everbright Holdings Purchase. The 78,015,500 Foreign Shares of Yuchai held by Earnest Assets Limited, a subsidiary of China Everbright Holdings and China Everbright International before its sale to us had been originally issued as Legal Person Shares and GY Group Shares and were converted to Foreign Shares, pursuant to approvals granted by MOFTEC. As a result, the Company became the owner of each of these six companies: Hong Leong Technology Systems (BVI) Ltd., Tsang & Ong Nominees (BVI) Ltd., Cathay Diesel Holdings Ltd., Goldman Sachs Guangxi Holdings (BVI) Ltd., Youngstar Holdings Limited and Earnest Assets Limited.

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In December 1994, we sold 7,538,450 shares of Common Stock in our initial public offering and used substantially all of the proceeds to finance our six wholly-owned subsidiaries' purchase of 83,404,650 additional Foreign Shares in Yuchai.

In connection with our purchase, through our six wholly-owned subsidiaries, of additional Yuchai Shares with proceeds of our initial public offering, Yuchai offered additional shares pro rata to its other existing shareholders (30 shares for each 100 shares owned) in accordance with such shareholders' pre-emptive rights, and each of our subsidiaries was able to acquire these additional Foreign Shares in Yuchai. Such pro rata offering (including the offering to the Company) is referred to herein as the "Yuchai Offering." Certain Legal Person shareholders subscribed for additional shares in the Yuchai Offering. The GY Group informed Yuchai at the time that it would not subscribe for any of its portion of Yuchai Shares (31,345,094 shares) in the Yuchai Offering. In order to obtain MOFTEC's approval of the Yuchai Offering, the GY Group was given the right by Yuchai's Board of Directors to subscribe for approximately 31 million shares of Yuchai at a price of RMB 6.29 per share at any time prior to December 1998. This was because provisional regulations of the State Administration Bureau of State Property, or SABSP, and the State Committee of Economic System Reform, or SCESR, published in November 1994, imposed on any holder of state-owned shares certain obligations to protect its interest in any share offering. Under such regulations, the GY Group could have been required to subscribe for Yuchai Shares in the Yuchai Offering. Yuchai's shareholders subsequently agreed to extend the duration of such subscription right to March 31, 2002 (the exercise of which would have reduced our ownership of Yuchai from 76.4% to 71.7%). The GY Group informed the shareholders of Yuchai that it had determined not to subscribe for additional Yuchai Shares and this determination was noted by the Yuchai's Board of Directors on November 1, 2002. However, given the November 1994 provisional regulations of the SABSP and the SCESR, the SABSP, the SCESR and/or the Ministry of Commerce may take action against the GY Group, and there can be no assurance that any such action would not, directly or indirectly, have a material adverse effect on Yuchai or the Company.

Reorganization Agreement

On April 7, 2005, we entered into the Reorganization Agreement with Yuchai and Coomber, which is intended to be in furtherance of the implementation of the restructuring contemplated in the agreement dated July 19, 2003 between the Company and Yuchai with respect to the Company's investment in Yuchai (the "July 2003 Agreement"), as amended and incorporated into the Cooperation Agreement on June 30, 2007. The terms of the Reorganization Agreement have also been acknowledged and agreed to by the GY Group. The Reorganization Agreement provides for the implementation of corporate governance guidelines approved by the directors and shareholders of Yuchai in November 2002 and outlines steps for the adoption of corporate governance practices at Yuchai conforming to international custom and practice. Pursuant to the Reorganization Agreement, Yuchai also acknowledged and affirmed our continued rights as majority shareholder to direct the management and policies of Yuchai through Yuchai's Board of Directors.

Subsequent to the execution of the Reorganization Agreement, a number of steps have been taken by the parties thereto towards its implementation. For example, Yuchai's directors and shareholders have confirmed that the amendments to Yuchai's Articles of Association and corporate governance guidelines required to be adopted by Yuchai pursuant to the Reorganization Agreement have been ratified and implemented, and that steps are being taken to have such amendments and guidelines approved by the relevant Chinese authorities. The amended Articles of Association was approved by the Guangxi Department of Commerce on December 2, 2009.

Cooperation Agreement

The Reorganization Agreement was scheduled to terminate on June 30, 2007. On June 30, 2007, we entered into the Cooperation Agreement with Yuchai, Coomber and the GY Group. The Cooperation Agreement amends certain terms of the Reorganization Agreement, as amended, among CYI, Yuchai and Coomber, and as so amended, incorporates the terms of the Reorganization Agreement.

Pursuant to the amendments to the Reorganization Agreement, the Company agreed that the restructuring and spin-off of Yuchai would not be effected, and, recognizing the understandings that have been reached between the Company and the GY Group to jointly undertake efforts to expand the business of Yuchai, the Company would not seek to recover the anti-dilution fee of US\$20 million from Yuchai.

The Cooperation Agreement provides that the parties will explore new business opportunities and ventures for the growth and expansion of Yuchai's existing businesses. Although the parties to the Cooperation Agreement expect to work towards its implementation as expeditiously as possible, no assurance can be given as to when the transactions contemplated therein will be consummated.

Various amendments to Yuchai's Articles of Association had been ratified and adopted by Yuchai in 2007 and were approved by the Guangxi Department of Commerce on December 2, 2009.

Business Overview

Emission Standards

Since the introduction of China National I in the early 2000s, Chinese regulators have been steadily tightening the limits on permissible emissions of on-road diesel vehicles and off-road machinery. In an effort to combat increasing air pollution, China's vehicle industry transitioned to the National IV and National V emission standards in just a five-years from 2013 to 2018. The latest emission standard, known as National VI, was implemented in July 2021. Yuchai produces diesel engines and natural gas engines compliant with the National V and National VI emission standards. It also develops alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. Towards the end of 2021, Yuchai had a portfolio of engines that was National VI (b) emission standards compliant, even though such emission standards are not scheduled for implementation until July 2023.

For off-road machinery, the Tier-3 emission standards were implemented nationwide on December 1, 2016. The updated Tier-4 standards will phase in from December 2022 for all diesel off-road equipment with engine sizes smaller than 560kW. Yuchai is able to produce diesel engines compliant with Tier-3 emission standards for use in off-road machinery and would be able to comply with the new emission standard of Tier-4 for all off-road machinery before December 2022.

Products and Product Development — Yuchai

Yuchai engages in the manufacture, assembly and sale of a wide variety of light-, medium- and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, and marine and agriculture applications in China. Yuchai also produces engines for diesel power generators. The engines produced by Yuchai range from diesel to natural gas and hybrid engines. Through its regional sales offices and authorized customer service centers, Yuchai distributes its engines directly to auto OEMs, agents and retailers and provides maintenance and retrofitting services throughout China.

Yuchai is devoted to improving its competitiveness across all engine platforms, including light-, medium- and heavy-duty engines in compliant with the new emission standards. Yuchai has established a portfolio of on-road engines that meet with the National VI emission standards implemented in China on July 1, 2021. Prior to the off-road Tier-4 emission regulations come in force, Yuchai proactively developed a complete range of Tier-4 compliant off-road engines in anticipation of the new regulation that will be implemented in December 2022.

In order to meet the growing demand of clean-energy engines, Yuchai is also expanding its production and research and development capabilities in natural gas engines, fuel cells, hybrid power system, pure electric system, engine range extenders and electric drive axle. In September 2021, Yuchai entered into an agreement with the Government of Nanning Municipality to invest on the research, development and construction of new production capacity for new energy technologies including fuel cell systems, range extenders, hybrid power and electric drive system. In October 2021, Yuchai announced a new smart powertrain system, IE-Power, the China's first heavy-duty tractor CVT hybrid powertrain. In December 2021, Yuchai announced its first operating hydrogen engine for China's commercial vehicle market, the YCK05 hydrogen-powered engine.

New Products

In 2021, Yuchai launched a new energy product, IE-Power, for off-road agricultural market. IE-Power is a new generation hybrid system incorporated the Yuchai e-CVT transmission. The system will be installed on heavy-duty agricultural machinery such as heavy-duty tractors. The IE-Power has a designed output of 200-260hp rating.

In May 2019, Yuchai introduced the below four new energy powertrain systems, which incorporate the power source (either an internal combustion engine or electric power) transmission gear, traction motor and electronic control system for the vehicle.

- (a) an ISG power generation powertrain ("YC IE-Power");
- (b) an e-CVT power-split hybrid powertrain ("YC e-CVT");
- (c) an integrated electric drive axel powertrain ("YC e-Axel"); and
- (d) a fuel cell system ("YC FCS").

For more information, see "Products and Product Development — Yuchai — New Energy Products".

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In October 2018, Yuchai introduced the below 10 new engine models compliant with the Tier-4 emission standards for industrial and agricultural off-road applications, which are YCA05, YCA07, YCA08, YCF36 (2 models), YCK09, YCK11, YCK13, YCK15 and YCTD20. Certain details of these products are set out as below.

- (a) The YCA05-T40 engine has a displacement volume of 4.8 liter and a maximum power output of 220 PS with a maximum torque of 720 N-m.
- (b) The YCA07-T40 engine has a displacement volume of 6.9 liter and a maximum power output of 260 PS with a maximum torque of 1050 N-m.
- (c) The YCA08-T40 engine has a displacement volume of 7.5 liter and a maximum power output of 320 PS with a maximum torque of 1200 N-m.
- (d) The YCF36-T48 engine has a displacement volume of 3.6 liter and a maximum power output of 125 PS with a maximum torque of 480 N-m.
- (e) The YCF36-T40 engine has a displacement volume of 3.6 liter and a maximum power output of 150 PS with a maximum torque of 500 N-m.
- (f) The YCK09-T40 engine has a displacement volume of 9.4 liter and a maximum power output of 400 PS with a maximum torque of 1900 N-m.
- (g) The YCK11-T40 engine has a displacement volume of 10.8 liter and a maximum power output of 480 PS with a maximum torque of 2200 N-m.
- (h) The YCK13-T40 engine has a displacement volume of 12.9 liter and a maximum power output of 580 PS with a maximum torque of 2600 N-m.
- (i) The YCK15-T40 engine has a displacement volume of 15.3 liter and a maximum power output of 650 PS with a maximum torque of 3000 N-m.
- (j) The YCTD20-T40 engine has a displacement volume of 19.6 liter and a maximum power output of 952 PS with a maximum torque of 3800 N-m.

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Existing Engine Products

Yuchai manufactures diesel and natural gas engines for trucks, buses and passenger vehicles, marine and industrial applications and generator sets. The following table sets forth Yuchai's list of engines by application:

	<u>Series</u>
Truck	YCY24, YCY30, YCS04, YCS04N, YCS06, YCK05, YCK08, YCK09, YCK11, YCK11N, YCK13, YCK13N, YCA07N, YCK15N
Bus	YCY24, YCY30, YCS04, YCS06, YCK05, YCK08, YCK09, YCK11, YCS04N
Construction	YCF24, YCF30, YCF36, YCA05, YCA07, YCA08, YCK09, YCK11, YCK13
Agriculture	YCF30, YCF36, YCA05, YCA07, YCA08, YCK09, YCK11, YCK13
Marine	YC4D, YC4FA, YC6T, YC6TD, YC6C, YC6CL, YC6CD, YC8CL, YC12VC, YC6MK
Generator-Drive	YC4R, YC4FA, YC4D, YC6A, YC6LN, YC6MK, YC6MJ, YC6T, YC6C, YC6CL, YC12VC, YC12VTD, YC16VTD, YC16VC, YC6MKN, YC6K, YC6KN

Yuchai's existing engine products include light-, medium- and heavy-duty engines as set forth in the following table. According to Yuchai's new classification system implemented since 2018, engines are classified as light-duty engines in capacity of 3.8 liters and less, medium-duty engines in capacity of between 3.8 liters and 7.0 liters, and heavy-duty engines in capacity of 7.0 liters and above.

	<u>Series</u>
Light Duty	YC4FA, YCY24, YCY30
Medium Duty	YC4A, YC4D, YC6A, YCK05, YCS06, YCS04, YCS04N, YCA05, YCA07, YCA08
Heavy Duty	YC6LN, YC6MK, YC6MKN, YC6MJ, YC6K, YC6KN, YC6K13, YC6K13N, YC6T, YC6C, YC6CN, YC6CL, YC8CL, YC12VTD, YC12VC, YC16VC, YC6CD, YC6TD, YCK08, YCK09, YCK11, YCK11N, YCK13, YCK13N, YCK15N

(a) 4-Cylinder Diesel Engines

Trial production of the 4-cylinder diesel engines commenced in late 1999 and today, they represent a stable of reliable and high-performance engines. Significant improvements to the technical specifications of the 4-cylinder engines to meet National V emission standards have resulted in higher customer acceptance resulting in consistent sales demand. The National V compliant engines will be gradually phased out from the China market with the full implementation of the National VI emission regulations from July 2021 onwards. Yuchai may retain certain National V products for the export market.

Our line of 4-cylinder diesel engines consists of the following models:

- The YCY24 engine compliant with National VI emission standards is for use in passenger vehicles, light-duty buses and pick-up trucks. It has a displacement volume of 2.36 liter and a maximum power output of 150 PS with a maximum torque of 380 N-m.
- The YCY30 engine compliant with National VI emission standards is for use in light-duty buses and trucks. It has a displacement volume of 2.97 liter and a power range of 150-180 PS with a maximum torque of 460 N-m.
- The YCS04 engine compliant with National VI emission standards is for use in light to medium-duty buses and trucks. It has a displacement volume of 4.16 liter and a maximum power output of 180 PS with a maximum torque of 650 N-m.
- The upgraded YC4A-T-30 engine is designed for agriculture application. Using a high pressure injection mechanical in-line pump and exhaust gas recirculation ("EGR") technology, this engine improves the heat transfer efficiency of the cooling system by more than 30%. It is compliant with Tier-3 emission standards for off-road applications.
- The YC4D engine is a 4-cylinder, four-stroke engine with a rated power ranging from 120 to 180 PS. It is a diesel engine co-developed by Yuchai and Germany FEV, and features lower emission, lower fuel and oil consumption, lower noise, higher reliability, lower price and better upgrading potential.

(b) 6-Cylinder Diesel Engines

National VI emission standards compliant diesel engines

- The YCS06 engine compliant with National VI emission standards is for use in medium-duty trucks, coaches and buses. It has a displacement volume of 6.23 liter and a maximum power output of 260 PS with a maximum torque of 1000 N-m.
- The YCK05 engine compliant with National VI emission standards is for use in medium-duty trucks, coaches and buses. It has a displacement volume of 5.1 liter and a maximum power output of 230 PS with a maximum torque of 870 N-m.

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- The YCK08 engine compliant with National VI emission standards is for use in medium-duty and special purpose trucks, highway coaches and buses. It has a displacement volume of 7.7 liter and a maximum power output of 350 PS with a maximum torque of 1400 N-m.
- The YCK09 engine compliant with National VI emission standards is for use in medium to heavy-duty trucks, highway coaches and buses. It has a displacement volume of 9.41 liter and a maximum power output of 380 PS with a maximum torque of 1800 N-m.
- The YCK11 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, highway coaches and buses over 10 m in height. It has a displacement volume of 10.84 liter and a maximum power output of 460 PS with a maximum torque of 2200 N-m.
- The YCK13 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 560 PS with a maximum torque of 2500 N-m.

6MK Heavy-Duty Diesel Engines

The 6MK heavy-duty engine family was initially designed for heavy-duty trucks and passenger buses and was developed based on technologies from USA, Japan and Germany in accordance with FEV procedures. The 6MK engine has adopted the common rail injection system technology to meet with the latest emission requirements and the European forced cooling piston technology. It has a 10.34 liter displacement and power ranging from 300 to 400 PS. The upgraded YC6MK-50 is a 10.3 liter engine for marine and power generation application.

YC6MJ Heavy-Duty Diesel Engines

YC6MJ is an upgraded version of the YC6MK engine with larger piston for power extension and adopting a traditional high pressure injection system. It is an 11.7 liter engine rated at 450 PS and is for use in mining, marine and power generation applications.

YC6K Diesel Engines

The YC6K 6-cylinder diesel engine is a National V compliant engine rated at 380 to 550 PS with a capacity of between 10/12/13 liter. The components and combustion systems of the engine are suitable for use in heavy-duty trucks and for coaches exceeding 12 meters in length.

YC6K13 Diesel Engine

The YC6K13-50 engine compliant with National V emission standards is an upgraded version of the YC6K12 engine series with reinforced engine components. This engine has an increased displacement volume and power range of 490 to 580 hp with maximum torque of 2,550 N-m.

(c) High Horsepower Marine Diesel Engines and Power Generator

In May 2011, Yuchai commenced construction of a plant at Yuchai's primary manufacturing facilities in Yulin City, Guangxi Zhuang Autonomous Region, to increase the annual production capacity of marine diesel engines and power generators to meet increasing demand. The following are our marine diesel and power generator models.

- YC6T is a 6-cylinder engine rated at 360 to 600 PS and is suitable for construction applications. It is used in marine propulsion, power generators, construction and mine trucks. The YC6T engine rated at 404 to 440 kW at 1500 rpm is for power generation, while those rated at 290 to 396 kW at 1500 to 1800 rpm are for marine applications and those rated at 350 to 540 PS at 1350 rpm are for marine propulsion.
- YC6C is a 40 liter, 6-cylinder engine rated at 700 to 1000 PS. It was launched in early 2011 and is used in marine propulsion, power generators, construction and mine trucks. The YC6C engine rated 680 to 850 kW at 1500 rpm is for power generation and those rated 560 to 680 kW at 1500 rpm are for marine propulsion.
- YC6CL is an upgraded version of the YC6C engine with longer piston stroke for better power output and performance. It is a 54 liter engine rated at 800 to 1200 PS.
- YC12VTD is derived from the YC6TD engines where the V-engine enables the engine to have a compact configuration. The engine is 12-cylinder, 39 liter rated at 900 to 1345 kW at 1500 rpm, mainly for application in the power generator, marine and industrial markets. The YC12VTD was launched in 2018.

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- YC16VTD is derived from the YC6TD engine where the V-engine enables the engine to have a compact configuration. The engine is 16-cylinder, 52 liter rated at 1520 to 1680 kW at 1500 rpm, mainly for application in the power generator, marine and industrial markets. The YC16VTD was launched in 2018.
- YC12VC is derived from the YC6C engines where the V-engine enables the engine to extend its power output at similar engine platform. The engine is 12-cylinder, 80 liter rated at 1120 to 1800 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VC was commercially launched in 2015.
- YC16VC is derived from the YC6C engines where the V-engine enables the engine to extend its power output at similar engine platform. The engine is 16-cylinder, 108 liter rated at 1960 to 2400 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC16VC was commercially launched in late 2016.
- YC8CL is an extended version of YC6CL engine, with 8-cylinder in line configuration. YC8CL is an 8-cylinder, 72.8 liter engine rated at 692-1176 kW at 750-1000 rpm. The main application is in marine propulsion for river trade and coastal general cargo vessels. The YC8CL was officially launched in mid-2017.

(d) Other Products and Services

Natural Gas Engines

Yuchai has a facility at its primary manufacturing facility in Yulin City, Guangxi Zhuang Autonomous Region, to develop and produce a portfolio of natural gas powered engines to complement its existing suite of diesel engines. The main uses of Yuchai's natural gas engines are in large buses, medium- to heavy-duty trucks, industrial and power generators and the marine sector.

Yuchai natural gas engines are designed to work with both CNG and LNG fuel systems, and they are generally constructed using similar major components as Yuchai's diesel engines. Yuchai currently offers natural gas engines in the following models: YCS04N, YCK05N, YCA07N, YC6JN, YC6GN, YC6LN, YC6MKN, YCK08N, YCK11N, YCK13N and YCK15N ranging from 120 to 560 hp. Among these engines, YCS04N, YCK05N, YCK08N, YCK11N, YCK13N and YCK15N are natural gas engines compliant with National VI emission standards.

Diesel Power Generators

Yuchai has a history of more than 40 years for producing the diesel generator set, with wide application in the civil and marine sectors. Yuchai produces diesel power generators which are primarily used in the baseload and standby power generation application. The diesel power generators offer a rated power of 24 to 160 kilowatts. Yuchai's diesel power generators use diesel engines from YC4FA up to YC6T as their power source. The generator set includes an intelligent digital controlling system, remote control, generators group control, remote monitoring, automatic parallel operation, and automated protection against breakdowns.

Diesel Engine Parts

Yuchai supplies diesel engine parts to its nationwide chain of customer service stations in China. Although sales of diesel engine parts do not constitute a major percentage of Yuchai's revenue, the availability of such parts to its customers and to end-users through its nationwide chain of customer service stations is an important part of Yuchai's customer service program. Yuchai is continually improving its spare parts distribution channel services to maintain its competitive position.

Remanufacturing Services

Yuchai provides remanufacturing services for and relating to Yuchai's diesel engines and components through its wholly-owned subsidiary, Yuchai Remanufacturing Services (Suzhou) Co., Ltd. ("YRC"). YRC's factory is located in the Suzhou Industrial Park in Suzhou, Jiangsu Province.

New Energy Products

Yuchai has commenced the development program for new energy products, which included the new generation hybrid engine, full electric power and NEV power systems including fuel cell systems.

(a) Plug in hybrid engine

The second-generation hybrid engine model, YCHPT II, was designed to address the growing customer demand for advanced hybrid engines. The engine adopts plug-in systems to charge the vehicles' batteries, and it features an upgraded gearbox with an interchangeable 5-speed automatic and manual system.

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The YCHPS hybrid engine compliant with National V emission standards is the latest design incorporating the YC4EG gas engine with an ISG generator. The system can be operated in buses with hybrid or full electric operating systems with an external plug-in system. The engine is designed for use in seven to ten meter coaches and buses.

(b) Range Extender

Range extender power system combines a traditional diesel engine and an electric power system. Yuchai has launched the range extender power system for both truck and bus applications.

Range extender power system is available in two power ratings, including YCY24 engine + 65 kW electrical power and YCS04 engine + 100 kW with electrical power output.

Extended power rating is under development including YCK05+150 kW, YCA08+200 kW and YCK11+300 kW.

(c) ISG power generation powertrain ("YC IE-Power")

A highly integrated motor-generator design that incorporates both motion and generation functions. The YC IE-Power directly couples the hybrid and power extender engine drive end for both vehicle motion and battery charging, depending on the vehicle's operation and control.

(d) e-CVT power-split hybrid powertrain ("YC e-CVT")

A compact design for both truck and bus applications that integrates the vehicle transmission and motor-generator in a single module. The design can achieve improved fuel savings compared to traditional power systems.

(e) Integrated electric drive axel powertrain ("YC e-Axel")

A compact design integrating driving motor on wheel axle together with motor and vehicle control modules. The YC e-Axel can eliminate transmission loss that is common in traditional designs and save storage space in the chassis.

(f) Fuel cell system ("YC FCS")

It is a high efficiency fuel cell system with design output of 40 kW and 90 kW, for both truck and bus applications. The 40 kW fuel cell system prototype has been installed on selected OEM's medium-duty coaches for running and performance testing. The 90kW version is currently under development and Yuchai plans to have a first prototype ready by mid-2021.

Sales

In 2021, according to CAAM, engine sales for commercial vehicles (excluding gasoline-powered and electric-powered vehicles) in China were approximately 3.4 million units, a decrease of 6.9% compared to 2020. Yuchai's commercial vehicle engine sales in 2021 were 241,325 units, a decrease of 11.9% compared to 273,868 units in 2020. Yuchai's total engine sales in 2021 were 456,791 units, an increase of 6.2% compared with 430,320 units in 2020.

Light-duty engine sales in 2021 were 127,202 units, or 27.8% of total unit sales, compared to 26.8% in 2020, where light-duty engine sales were 115,389 units. Medium-duty engine sales were 229,109 units, or 50.2% of total unit sales, compared to 2020 where sales were 222,657 units or 51.7% of total unit sales. Heavy-duty engine sales were 99,680 units, or 21.8% of total sales units, compared to 2020 where sales were 91,474 units, or 21.3% of total unit sales.

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In 2021, Yuchai sold approximately 7,934 natural gas engine units compared with approximately 18,969 units sold in 2020. The following table sets forth a breakdown of Yuchai's sales by major product category for fiscal years 2019, 2020 and 2021:

	2019			2020			2021		
	Revenue RMB'000	% of Revenue	Unit Sold	Revenue RMB'000	% of Revenue	Unit Sold	Revenue RMB'000	% of Revenue	Unit Sold
Light-duty engines ⁽¹⁾	2,429,248	13.5%	105,749	2,356,168	11.5%	115,389	2,429,745	11.4%	127,202
Medium-duty engines ⁽²⁾	5,583,982	31.1%	184,467	6,626,629	32.2%	222,657	7,065,283	33.2%	229,109
Heavy-duty engines ⁽²⁾	6,189,934	34.4%	85,000	6,725,312	32.7%	91,474	7,410,771	34.9%	99,680
Other products and services ⁽³⁾	3,777,140	21.0%	932	4,849,551	23.6%	800	4,348,335	20.5%	800
	<u>17,980,304</u>	<u>100.0%</u>	<u>376,148</u>	<u>20,557,660</u>	<u>100.0%</u>	<u>430,320</u>	<u>21,254,134</u>	<u>100.0%</u>	<u>456,791</u>

Notes:

- (1) Includes passenger car engines.
(2) Includes natural gas engines.
(3) Includes power generator sets, NEV products and others.

Production

Yuchai's primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. The principal production land area currently occupies approximately 1.8 million square meters, including an existing production factory for all light-, medium- and heavy-duty engine models, a natural gas production facility, a high horse power marine diesel engine and power generator plant, a foundry and various testing and supporting facilities.

As of December 31, 2021, Yuchai's total technical production capacity was approximately 633,000 units, compared to 626,000 units in 2020 based on a 2.0 shift five-day week at 80% utilization rate. To comply with the National VI emission regulations implementation schedule, Yuchai has committed the investment on production equipment, either building the new lines or modifying the existing facilities tailored for National VI engines assembly.

In 2021, we produced 452,910 units of engines. The following table sets forth the breakdown of Yuchai's production at the Yulin facility by major product category for the years ended December 31, 2019, 2020 and 2021:

	2019		2020		2021	
	Units	% of Units	Units	% of Units	Units	% of Units
Light-duty engines ⁽¹⁾	104,722	30.4%	118,430	28.1%	128,000	28.3%
Medium-duty engines ⁽²⁾	175,677	51.0%	220,465	52.4%	236,598	52.2%
Heavy-duty engines ⁽²⁾	63,885	18.5%	81,547	19.4%	87,676	19.4%
Other products and services ⁽³⁾	434	0.1%	193	0.1%	636	0.1%
	<u>344,718</u>	<u>100.0%</u>	<u>420,635</u>	<u>100.0%</u>	<u>452,910</u>	<u>100.0%</u>

Notes:

- (1) Includes passenger car engines.
(2) Includes natural gas engines.
(3) Includes power generator sets, NEV products and others

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Procurement

Yuchai manufactures engine blocks, cylinder heads, crankshaft, camshaft and certain other key parts. Third party suppliers provide the remaining engine parts. The production process involves the complete assembly and testing of the finished products. Yuchai's procurement policy requires the same product to be sourced from at least two distinct sources. The same practice applies to all other externally procured engine parts. Yuchai is continually seeking to improve its procurement strategy by seeking new suppliers with competitive prices and quality.

Yuchai has progressively reduced its reliance on imported parts and components in recent years, in part due to an increasing number of international suppliers having local manufacturing and logistics capabilities in China. For instance, Yuchai's fuel combustion equipment and its electronic control systems are purchased from the local factory of an international supplier operating in China.

Engine Block

Yuchai cast and molded more than 364,000 units of engine blocks in 2021 representing a large portion of its engine blocks used in production.

Raw Materials

Yuchai purchases raw materials, principally scrap steel and cast iron, from domestic suppliers. An increase in the prices of these raw materials would generally increase our costs of production. We have experienced volatility in the prices of raw materials in the past. See also "Item 3. Key Information — Risk Factors — If China's inflation increases or the prices of energy, raw materials or components increase, we may not be able to pass the resulting increased costs on to our customers and this may adversely affect our profitability or cause us to suffer operating losses."

Quality Assurance, Control and Safety

All raw materials, external supplied parts and components are checked for conformity with the required quality and specifications. Each stage of the production process is monitored by a quality control procedure and the final product undergoes standard conformity and specification testing using an automated testing laboratory. To promote the safety of its workers, Yuchai has established a safety department to supervise the proper use of equipment to prevent fire and explosions and promote safe practices and procedures in the workplace.

Manufacturing Capacity Expansion

Yuchai believes that the current production capacity of all engine lines will meet the expected demand. Yuchai is continuously assessing the market demand and devising production strategies to secure and meet these market opportunities.

Research and Development

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. Yuchai's internal development effort focuses primarily on designing new products, improving manufacturing processes and adapting foreign technology to the Chinese market. Yuchai has committed to continually improve the technology of its products by acquiring advanced technology from Chinese research institutes, international engine design consulting firms, as well as international diesel engine and engine parts manufacturers.

In 2019, Yuchai's research and development efforts were mainly related to National VI engine testing and calibration to support domestic vehicle OEMs who had installed Yuchai engines in their National VI vehicles. The development of Tier-4 emission compliant engines is on-going and the prototype engines are in preparation for delivery. In 2020, Yuchai's research and development efforts were mainly related to National VI emission standards compliant engine testing and calibration, to support domestic commercial vehicle OEMs on the launch of new emission regulation-compliant vehicles. Yuchai's development of Tier-4 emission compliant engines is on-going and it is starting to deliver the prototype engines to selected off-road machinery OEMs. In addition, Yuchai launched two range extender power systems of 65 kW and 100 kW rating for new energy vehicles. In 2021, Yuchai's research and development efforts were mainly related to National VI emission standards compliant engine testing and application verification, to support domestic commercial vehicle OEMs to resolve application issues from commercial launching. Yuchai's development of Tier-4 emission compliant engines is on-going. Most of Yuchai's Tier-4 products have passed the certificate testing and prototype engines have been installed on OEM machinery for test running. We believe that Yuchai is well positioned for commercial operation of its Tier-4 compliant products prior to the emission regulation implementation by December 2022. Yuchai also launched its new energy project, the IE-Power system for heavy-duty agricultural market, and delivered the prototype 90kW full cell system to one of our OEM customers. See "Item 4. Information on the Company — Business Overview — Products and Product Development — Yuchai — New Energy Products" for more details.

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As a result of its research and development efforts, Yuchai has a large patents portfolio with over 3,000 patents registered in China as of December 31, 2021. The types of patents that Yuchai has registered are invention patents, utility model patents and design patents. The term of patent protection is 10 or 20 years from the filing date depending on the type of patent registered.

Future Products

Yuchai believes that its long-term business prospects will largely depend upon its ability to develop and introduce new or improved products with higher quality and competitive pricing. Future products may utilize different technologies and may require knowledge of markets that Yuchai does not currently possess.

Yuchai intends to continue to work with international engine design consulting firms and international engine manufacturers for technological assistance in improving its products and developing new products, and expects such cooperation to continue. The introduction of new engine products will also require significant capital expenditures, such as purchases of international manufacturing equipment and technologies. See “Item 3. Key Information — Risk Factors — Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.”

Sales, Marketing and Services

Sales and Marketing

Yuchai distributes the majority of its engines directly to auto plants and agents from its primary manufacturing facilities in Yulin City. In addition, Yuchai operates a number of regional offices in major geographic regions in China. With a sales force of approximately 635 persons nationwide in China, Yuchai provides a comprehensive range of services to its customers, including dispatching engineers to provide on-site assistance to major customers in the resolution of technical problems.

Yuchai promotes its products primarily through exhibitions, internet, social media, outdoor sign boards, and advertisements in newspapers and industry journals. In October 2019, Yuchai participated in the 70th Anniversary celebration of the founding of modern China with Yuchai engines propelling vehicles in the National Day parade in Beijing. In October 2021, Yuchai introduced a new smart powertrain system, IE-Power, for heavy-duty agricultural equipment at the 2021 China International Agricultural Machinery Exhibition in Shandong, China.

Since 1993, Yuchai has been sponsoring an annual program for its customer service stations with information brochures and customer suggestion cards for the improvement of Yuchai’s service. These customer service stations form Yuchai’s service and maintenance network. In relation to those engines which are under warranty cover, these customer service stations perform the routine maintenance checks and repairs on end-users’ diesel engines free of charge to the customers, and the corresponding costs are borne by Yuchai. When the warranty expires, these customer service stations can continue to serve Yuchai clients at their own choice and costs.

Yuchai believes that its promotional efforts are unique for an automotive component company in China and lead to greater brand name recognition among end-users. Yuchai further believes that it leads its competitors in providing high quality after-sales services through its 4,058 authorized customer service stations in China. The customer service stations are independently owned and are able to provide emergency services to its end-users within a 40-km radius in the central, eastern and southern parts of China.

Yuchai has continued to focus its sales efforts on retailers and end-users of diesel engines. Yuchai seeks to encourage end-users of gasoline engine trucks to replace their gasoline engines with Yuchai diesel engines by advertising the advantages of diesel engines. With the advent of a natural gas refueling network across the nation, customers have the additional option of using Yuchai’s natural gas engines. Such sales of replacement engines are generally made through customer service centers at a retail price which is higher than the sales price to truck manufacturers.

Yuchai believes that proximity to its factories in Yulin City is an important factor in the geographical make-up of its customers. Due in part to transportation and shipping costs, a substantial majority of Yuchai’s engines are sold to customers in southern and central eastern China. Customers’ geographical make-up is segmented by Guangxi, Henan, Sichuan, Hubei, Fujian, East and North East China.

In 2021, our sales to our top five customers accounted for 49.1% of our total revenue. Our top customer is a leading automobile manufacturer group in China. This group includes one of the largest automobile companies in China and other affiliated or controlled diesel truck manufacturers. In 2021, sales to our top customer as a group accounted for 25.1% of our total revenue. See “Item 4. Information on the Company — Business Overview — Competition.”

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As part of Yuchai's credit procedures to control and manage its trade receivables, Yuchai may hold shipments for delivery if customers' credit positions are not satisfactory or if customers have not made payments for earlier deliveries. There can be no assurance that such credit-controlling measures will successfully control Yuchai's trade receivables balance, or that they will not adversely affect the future purchasing decisions of Yuchai's customers. As of December 31, 2021, Yuchai had net trade and bills receivables of RMB 7,032.2 million (US\$1,112.3 million), representing 39.1% of our consolidated current assets.

Export Sales

Most of Yuchai's products that are exported outside of China are sold indirectly through third party distributors who purchase them from Yuchai and resell them on to end-users in subsequent and separate transactions. Yuchai exports a very small percentage of its products directly outside China, as the following table indicates:

	2019			2020			2021		
	Revenue RMB '000	% of Revenue	Unit Sales	Revenue RMB '000	% of Revenue	Unit Sales	Revenue RMB '000	% of Revenue	Unit Sales
Total Domestic Sales	17,909,126	99.6%	375,230	20,502,173	99.7%	428,371	21,206,280	99.8%	454,917
Total Direct Export Sales	71,178	0.4%	918	55,487	0.3%	1,949	47,854	0.2%	1,874
	<u>17,980,304</u>	<u>100.0%</u>	<u>376,148</u>	<u>20,557,660</u>	<u>100.0%</u>	<u>430,320</u>	<u>21,254,134</u>	<u>100.0%</u>	<u>456,791</u>

Customer Service

Yuchai believes that customer service is an important part of maintaining its market competitiveness. In addition to various services provided initially at its sales offices, Yuchai has a nationwide network of authorized service stations in China that provide repair and maintenance services, spare parts, retrofitting services and training to Yuchai's customers. To ensure a consistently high level of service, Yuchai trains the technicians at regional training centers or selected service stations. In addition, Yuchai also owns and operates repair training centers. The costs of any warranty-related services or repairs are borne by Yuchai, and all non-warranty activities are charged to customers. Yuchai's customer service program emphasizes a fast turnaround time on repair requests. As part of this policy, Yuchai supplies authorized service stations with spare parts for repairs and require these service stations to provide on-site assistance at the customer's place of business generally within 3 to 12 hours, depending on the customer's location.

Yuchai provides certain warranties for both general repairs and maintenance service. Provisions for general repairs are determined and provided at fiscal year-end based upon historical warranty cost per unit of engines sold, adjusted for specific conditions that may arise and the number of engines under warranty at each fiscal year end.

Trademarks

The GY Group owns and maintains the Chinese trademark registrations of its principal trademarks. Yuchai has entered into trademark license agreements with the GY Group according to which Yuchai has the right to use these trademarks. Yuchai believes that the Yuchai logo is well recognized as a quality brand in China.

Competition

The diesel engine industry in China is highly competitive. Yuchai believes it faces intense competition in the engine manufacturing industry across all of its engine platforms. The diesel engine market is fragmented and very price sensitive. Yuchai believes, based on internal studies, that competition is based primarily on performance, quality compliance with emission standards, price and after-sales service, and secondarily on noise, size and weight. Yuchai believes that its engines have a strong reputation among truck manufacturers and consumers for leading performance and reliability. In addition, Yuchai believes that its after-sales service to end-users of Yuchai engines, conducted through a nationwide network of authorized service stations and repair training centers in China, gives Yuchai a competitive advantage over other diesel engine producers.

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Our top customer is a leading automobile manufacturer group in China and a major competitor of Yuchai. In 2021, our sales to our top five customers accounted for 49.1% of our total revenue. Some of Yuchai's competitors have formed joint ventures with, or have technology assistance arrangements with, international diesel engine manufacturers or engine design consulting firms, and use foreign technology that is more advanced than Yuchai's technology. Yuchai expects competition to intensify as a result of, among other things, improvements in competitors' products, increased production capacity of competitors, increased utilization of unused capacity by competitors and price competition. Yuchai believes production capacity in the diesel engine industry has increased over the years which has further intensified competition. See "Item 3. Key Information — Risk Factors — Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects."

The ongoing development of full electric vehicles for both the bus and truck markets in China will continue to present a source of competition for Yuchai's engines because of the recent replacement of public transit buses, which had been a major bus engine market for Yuchai in the past, with electric vehicle buses in most cities of China.

The HLGE group

As of February 28, 2022, we had a 48.9% interest in the outstanding ordinary shares of HLGE. See "Item 5. Operating and Financial Review and Prospects — Business Expansion and Diversification Plan." HLGE is listed on the Main Board of the Singapore Exchange. HLGE's share price on the Singapore Exchange closed at S\$0.30 on February 28, 2022. The core businesses of the HLGE group are that of hospitality operations and property development.

In October 2017, HLGE completed the disposal of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. to Qingdao Haiyi Jun Zhuo Culture Travel Property Investment Co., Ltd. In November 2017, HLGE completed the disposal of its remaining hotel properties in China through the sale of all its shares in LKN Investment International Pte. Ltd. to an affiliate of Jingrui Holdings Limited. A portion of the proceeds from these disposals were used by the HLGE group to fully repay its debt obligations to us in the amount of S\$68 million under a loan agreement. The original loan amount of S\$93 million was granted to HLGE by a wholly-owned subsidiary of our company to refinance the outstanding zero coupon unsecured non-convertible bonds previously issued by HLGE and which matured on July 3, 2009. The loan amount was reduced to S\$68 million through past repayments by HLGE.

The HLGE group wholly owns a Copthorne hotel in Cameron Highlands (Malaysia). Copthorne Hotel Cameron Highlands comprises 269 guest rooms and suites. It is the only hotel situated at the highest accessible point of Cameron Highlands, Malaysia. Located next to the hotel, is a Tudor-styled resort, where 66 units have been leased by the hotel from the owners of the resort for use by its guests. The resort comprises self-contained low-rise and high-rise apartment suites and each suite is equipped with a living room, a kitchenette and a balcony. To maintain its competitiveness, HLGE carries out renovation programs at CHCH from time to time as required.

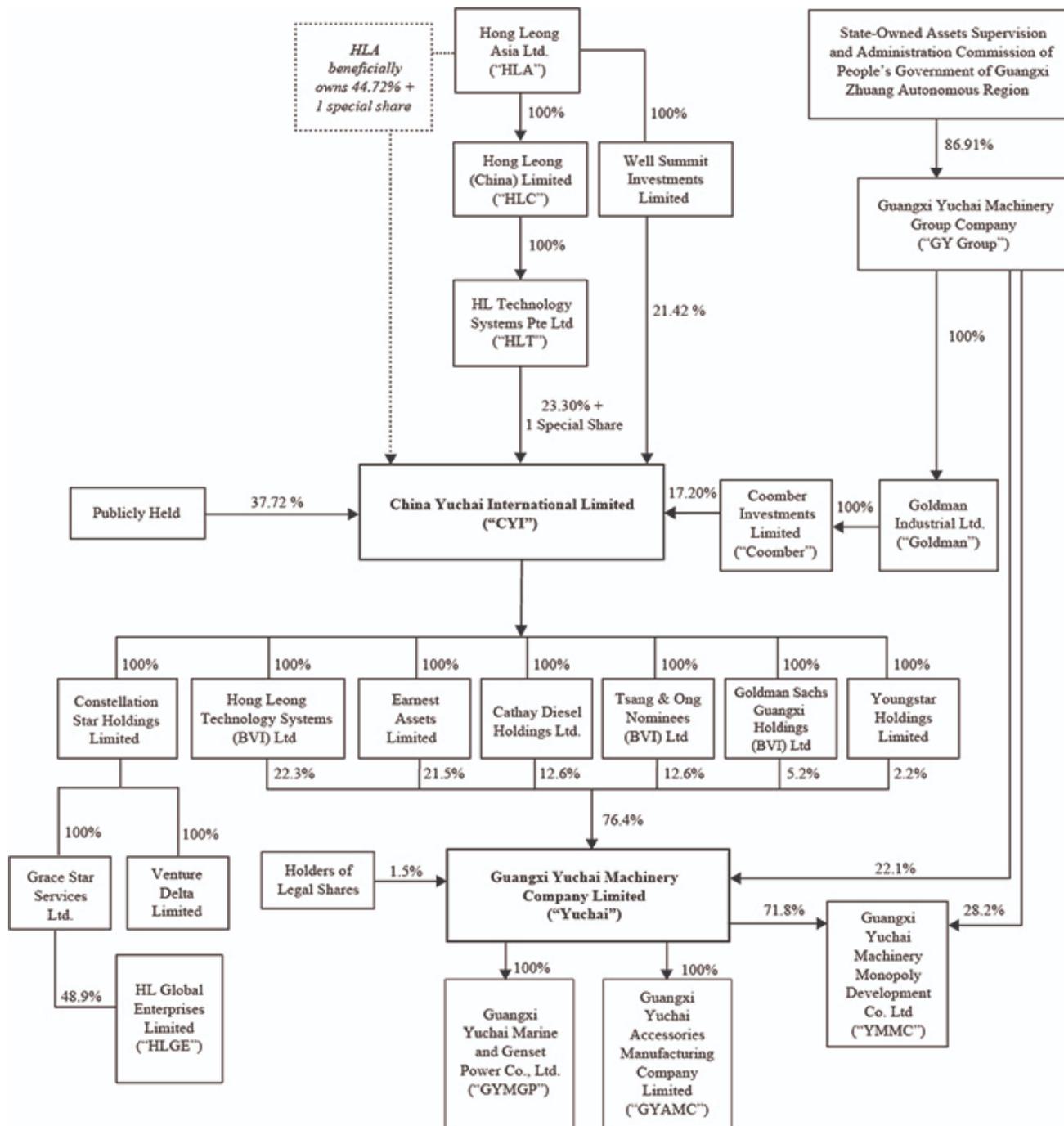
The HLGE group recorded pre-tax losses for five consecutive fiscal years from 2009 to 2013 and in fiscal year 2015. For fiscal year 2014, the HLGE group recorded a profit mainly due to the acquisition by its wholly-owned subsidiary of the remaining 55% equity interest in Augustland Hotel Sdn Bhd, which owned CHCH. For fiscal year 2016, the HLGE group recorded pre-tax profit. For fiscal year 2017, the HLGE group recorded a profit mainly due to its disposals of (i) the HLGE group's 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. to Qingdao Haiyi Jun Zhuo Culture Travel Property Investment Co Ltd; and (ii) the HLGE group's entire interests in LKN Investment International Pte. Ltd. to an affiliate of Jingrui Holdings Limited. Previously, HLGE's average daily market capitalization has fallen below the minimum threshold of S\$40 million resulting in it being placed on the Watch-list of the Singapore Stock Exchange ("Watch-list") on June 4, 2014, for failing to comply with the minimum criteria for continued listing. These factors in the past made it difficult for the HLGE group to obtaining financing from financial institutions. In March 2018, HLGE converted all of its existing issued and outstanding non-redeemable convertible cumulative preference shares into new ordinary shares of HLGE. On April 4, 2018, the Singapore Stock Exchange determined that HLGE met the Singapore Exchange's Listing Manual criteria for exit from the Watch-list and removed HLGE from the Watch-list.

The HLGE group may require additional funds for its core businesses and to invest in future growth opportunities. There is no assurance that the HLGE group would be able to generate sufficient internal funds to finance its growth plans or identify and complete any potential merger and acquisition opportunities to grow its earnings base. Accordingly, the HLGE group may, depending on the cash flow requirements and financial condition, need to raise additional funds by issuing equity or a combination of equity and debt or by entering into strategic relationships or through other arrangements. Any additional equity financing by HLGE may dilute our equity interests in HLGE. Any debt financing may contain restrictive covenants with respect to dividends, future capital raising and other financial and operational matters. Failure to obtain sufficient funds to finance its growth plans may adversely affect the HLGE group's business, financial performance and financial position.

For more information on risks relating to our investment in HLGE, see "Item 3. Key Information — Risk Factors — The HLGE group's hotel ownership and management business may be adversely affected by risks inherent in the hotel industry."

Organizational Structure

The following chart illustrates the organizational structure of the Company and Yuchai as of February 28, 2022 and is based on information generally known to the Company or otherwise disclosed in filings made with the SEC and the Singapore Exchange (see also “Item 7. Major Shareholders and Related Party Transactions — Major Shareholders”). This chart depicts the Company’s significant subsidiaries only.



Regulatory and Related Matters

Governance, Operation and Dissolution of Yuchai

Governance, operation and dissolution of Yuchai are governed by the FIL (as defined below), the Company Law of the People's Republic of China which was initially promulgated on December 29, 1993 and the revision draft was newly published for public comments on December 24, 2021 and other related laws and regulations, as well as by Yuchai's Articles of Association. Yuchai is subject to the relevant PRC labor laws and regulations with respect to labor management, which is overseen by the Ministry of Human Resources and Social Security. In accordance with these laws and regulations, management may hire and discharge employees and make other determinations with respect to wages, welfare, insurances and employee discipline. Chinese laws and regulations applicable to a Sino-foreign joint stock company require that, before Yuchai distributes profits, it must: (i) satisfy all tax liabilities; (ii) recover losses in previous years; and (iii) make contributions to statutory reserve fund in an amount equal to at least 10% of net income for the year determined in accordance with generally accepted accounting principles in China, or PRC GAAP. However, the allocation of statutory reserve fund will not be further required once the accumulated amount of such fund reaches 50% of the registered capital of Yuchai.

On March 15, 2019, a new foreign investment law was adopted ("FIL"). Upon its effectiveness on January 1, 2020, the existing Sino-Foreign Equity Joint Venture Law, the Wholly Foreign Owned Enterprise Law and the Sino-Foreign Cooperative Joint Venture Law, together with their implementation rules and ancillary regulations, have been repealed and the FIL has become the legal foundation regulating FIEs. The FIL grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either "restricted" or "prohibited" from foreign investment in a "negative list". Yuchai is governed by the FIL and related implementing rules. See also "Item 3. Key Information — Risk Factors — Questions on the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

Pursuant to Chinese law and Yuchai's Articles of Association, Yuchai may be dissolved upon the occurrence of certain events, including *force majeure*, severe losses, lack of supply of necessary materials or other events that render Yuchai unable to continue its operations. Upon dissolution, Yuchai will form a liquidation committee. Final dissolution is subject to government review and approval.

During 2003, we believe affiliates of the GY Group caused various Chinese government agencies to raise allegations of irregularities regarding the status of our ownership of and rights of control over Yuchai, which we believe was intended to try to limit our rights to exercise control over Yuchai. We further believe that such allegations were based on an inaccurate understanding of the structure of our ownership of Yuchai. We also believe that Yuchai's ownership structure has been validly approved by the relevant Chinese authorities, and that the shares of Yuchai held by our six wholly-owned subsidiaries are legally and validly held under Chinese law. We have obtained legal opinions from two Chinese law firms confirming these matters (see the reports on Form 6-K filed by the Company with the SEC on April 1, 2005). We have also taken steps to communicate to the relevant Chinese government agencies the reasons for our position with respect to these matters. We believe the July 2003 Agreement, the Reorganization Agreement, as amended, and the Cooperation Agreement, when fully implemented will resolve the issues raised by the various Chinese governmental agencies relating to our share ownership in Yuchai and the continued corporate governance and other difficulties which we have had from time to time with respect to Yuchai. Based upon the above-mentioned legal opinions, we believe that in the event of a future dispute with the Chinese stakeholders at Yuchai, we expect to pursue as appropriate legal remedies in appropriate jurisdictions to seek to enforce our legal rights as the majority shareholder with a controlling financial interest in Yuchai to protect our investment for our benefit and the benefit of our shareholders. See also "Item 3. Key Information — Risk Factors."

Property, Plant and Equipment

Yuchai's headquarters and primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. Yuchai has the right to use approximately two million square meters of land, which is currently used primarily for the production of diesel engines, natural gas engines and employee housing. The principal production land area for the manufacture of diesel and natural gas engines currently occupies approximately 1.8 million square meters, including the existing production factories for all light-duty, medium-duty and heavy-duty engine models, a natural gas testing facility, a high horse power marine diesel engine and power generation engine plant, phases one, two and three of a foundry and various testing and supporting facilities. In addition, Yuchai leases a number of regional sales offices in China. As of December 31, 2019, 2020 and 2021, Yuchai's total production capacity was approximately 626,000 units, 626,000 units and 633,000 units, respectively, based on a 2.0 shift five-day week at 80% utilization rate. Yuchai performs periodic maintenance and upgrading of production facilities. Yuchai also commits a significant portion of its annual capital expenditure for maintenance and upgrading to meet safety and production requirements. Yuchai is potentially exposed to varying environmental or natural disaster risks and could experience business interruptions, damage to its facilities and loss of life, all of which could have a material adverse effect on Yuchai's business, financial condition and results of operations. See "Item 4. Information on the Company — Business Overview — Products and Product Development — Yuchai — Production."

Environmental Matters

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 feasible. On January 18, 2016, the Ministry of Industry and Information Technology, or MIIT and the Ministry of Environmental Protection required that all light-duty petrol vehicles, light-duty diesel buses, and heavy-duty diesel vehicles (for the purposes of public transportation, environmental sanitation and postal services) must comply with National V emission standards from January 1, 2017. All heavy- and light-duty diesel vehicles nationwide were required to comply with National V emission standards from July 1, 2017 and January 1, 2018, respectively. In June 2018, the MEE announced that all diesel powered heavy-duty vehicles must comply with the National VI emission standards in different phases: (a) natural gas engines driven heavy-duty vehicles are required to comply with the National VI(a) emission standards from July 1, 2019, and the National VI(b) emission standards from January 1, 2021; (b) diesel engine driven municipal vehicles are required to comply with the National VI(a) emission standards from July 1, 2020, and all diesel driven heavy-duty vehicles are to comply with the National VI(a) emission standards from July 1, 2021; and (c) all diesel driven heavy-duty vehicles are required to comply with the National VI(b) emission standards from July 1, 2023. In December 2020, MEE announced the approval of Tier-4 emission standard and any off-road machinery (below 560 kW) that does not comply with the Tier-4 emission standard is prohibited for production, import and selling in China from December 1, 2022.

We are 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 of any facility that fails to comply with orders requiring us to cease or improve upon certain activities causing environmental damage. Due to the nature of our business, we produce certain amounts of waste water, gas, and solid waste materials during the course of our production. Yuchai has set up a sewage disposal system that meets national environmental discharge standards to process polluted water generated during production. In accordance with applicable regulations, sewage processing data and results of sewage treatment will be uploaded in real time to an online platform operated by the Ecology and Environment Department of the Guangxi Zhuang Autonomous Region. Polluted water will only be discharged upon confirmation that it meets the national standards. Yuchai delivers solid waste products to qualified third-party waste disposal sites to dispose and makes payments in respect thereof. For those recyclable waste such as foundry sand, third-party disposal sites with qualification would be engaged for recycling treatment to reduce waste of resources. In addition, Yuchai has also built treatment and filter systems for dust, fumes, panting and noise, respectively, to reduce the pollution resulting from Yuchai's production. We believe our environmental protection facilities and systems are adequate for us 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. See "Item 3. Key Information — Risk Factors — We are subject to increasingly stringent policies and regulations related to climate change and environmental protection."

ITEM 4A. UNRESOLVED STAFF COMMENTS

As of the date of filing of this Annual Report, we have no unresolved comments from the SEC.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Annual Report. Our consolidated financial statements and the financial information discussed below have been prepared in accordance with IFRS.

During the fiscal years ended December 31, 2019, 2020 and 2021, our main business has been our 76.4% ownership interest in Yuchai. As a result, our financial condition and results of operations have depended primarily upon Yuchai's financial condition and results of operations.

Overview

The Chinese economy in 2021 experienced two different growth paths. In the first half of 2021, Chinese GDP expanded by 12.7% as China continued its resurgent economic growth. However, a number of factors negatively impacted the Chinese economy in the second half of 2021 which substantially reduced economic growth. Those factors contributing to a production decline include a decline in construction activity, a slowdown in manufacturing as power shortages emerged in the second half of the year, the effect of ongoing COVID-19 restrictions on supply chains and a shortage of critical semiconductor chips. Amid this mixed market environment, our engine sales increased by 6.2% to 456,791 units in 2021, compared with 430,320 units in 2020. We achieved positive sales growth in nearly every market except the truck market. In the relatively smaller bus market, we achieved a 53.8% increase in bus engine unit sales while the overall bus market reported a 13.7% increase in unit sales for 2021. Our bus engine unit sales increased in each of its engine size categories. Our engine sales in the off-road markets also experienced a gain in the 2021 as engines used for marine and power generation application increased by 53.3% in the midst of the power shortages, and the sales of agricultural engines continued to benefit from farmers' transition from intensive labor to advanced machines.

The Chinese commercial vehicle market is a highly competitive market. According to CAAM, in 2021, commercial vehicle sales (excluding gasoline-powered and electric-powered vehicles) were 3.4 million units, a decrease of 6.9% compared with 2020. The truck market decreased by 8.7% year-on-year, mainly attributed to a 14.2% decline in the heavy-duty segment and a 5.0% decline in light-duty truck segment, which was partially offset by the 11.9% growth in the medium-duty truck segment. The bus market increased by 13.7% year-on-year, attributed to growth in all segments, a 2.4% increase in the heavy-duty bus segment, an 11.8% increase in the light-duty bus segment and a 14.9% increase in the medium-duty bus segment.

Since July 2021, Yuchai marked the successful transition of our on-road products to meet China's newly implemented National VI (a) emissions standards amidst stricter environmental regulations. Towards the end of 2021, Yuchai had a portfolio of engines that was National VI (b) emission standards compliant, even though such emission standards are not scheduled for implementation until July 2023. The shift to more stringent emission standards in China presents a growth opportunity but also a challenge to our business. Sales in the bus and truck market rose by 25.9% in the first half-year primary due to pre-buying of less expensive, less strict National V vehicles, however, a significant inventory of National V vehicles remained in the distribution channels after July resulting in much lower demand for National VI trucks in the second half of 2021. For 2021, truck sales decreased by 8.7% mainly due to lower heavy-duty segment by 14.2%, according to CAAM. Yuchai's truck engine sales was down by 16.2% with the major decline in light-duty engine segment by 24.0%.

The international demand for our engines rebounded as the impact of the COVID-19 pandemic began to subside around the world in 2021. Our export sales for 2021 were more than 34,000 units, representing growth of 23.6% compared to 2020. In March 2022, we announced 800 Ankai buses, powered by Yuchai YC6GN natural gas engines, were exported to Mexico.

China's focus on developing the NEVs industry to curb air pollution has tapered in recent years after various incentives and infrastructure investments were introduced to encourage purchases of electric-powered vehicles. In March 2020, the NDRC and MIIT jointly announced the extension of government incentives for electric-power vehicles through the end 2022, which boosted the electric vehicle sales for 2021. In 2021, sales of electric commercial vehicles increased by approximately 49.9% to 166,108 units from 110,787 units in 2020. Yuchai also recorded a growth in sales of emerging NEV products. In 2021, Yuchai's YCK05 hydrogen-powered engine achieved stable ignition and operation in a demonstration at the Beijing Institute of Technology.

Yuchai's new engines compliant with the stringent emission standards and its growing NEV products are a result of research and development investments. Our R&D capabilities have led to strategic initiatives with new partners. In 2021, we entered into a strategic partnership agreement with an electric vehicle bus producer in China, Guangxi Shenlong Automobile Manufacturing to develop new energy vehicles and leverage their supply chains and distribution networks. To accelerate development of new energy technologies, Yuchai established Yuchai Xin-Lan New Energy Power Technology Co., Ltd., and entered into an agreement with Government of Nanning Municipality for the construction of the Yuchai Xin-Lan project. In February 2022, a new joint venture with Beijing Xing Shun Da Bus Co., Ltd., was incorporated to develop hydrogen energy applications for fuel cell powertrains.

Our gross profit margin was 13.9% in 2021, lower than 17.2% in 2019 and 15.5% in 2020. The decline in 2021 was primarily attributable to a change in revenue mix, transition to National VI compliant engines and higher material costs but was mitigated by cost reductions.

As a result, our profit attributable to equity holders of the Company was RMB272.7 million (US\$43.1 million) for 2021, lower than RMB 604.9 million for 2019 and RMB 548.9 million 2020.

Uncertainties and adverse changes in the global and Chinese political, economic and social conditions could increase the costs associated with the development of our products, increases in prices and supply constraints of energy, raw materials or components, increase the cost and decrease the availability of potential sources of financing, and increase our exposure to material losses from our investments. See "Item 3. Key Information – Risk Factors" for further details. In addition, any changes in tax legislation in China or adverse findings from the tax authorities could have a material impact on the consolidated financial conditions or results of operations. Our main operating subsidiary, Yuchai, enjoys a preferential corporate tax rate of 15%. See "Item 10. Additional Information-Taxation" for further details. In the event Yuchai fails to enjoy this preferential tax rate, it will be subject to corporate tax at the rate of 25%.

COVID-19 Pandemic: Response and Impact

Since December 2019, an outbreak of a novel strain of coronavirus (COVID-19) spread rapidly in China and globally. In response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having contracted COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The COVID-19 resulted in temporary closure of many manufacturing facilities and factories across China. Although COVID-19 has been largely controlled in China, there have been occasional outbreaks in several cities. To the extent we have production or manufacturing activities based in these locations, or our suppliers are located in these locations, we are susceptible to factors adversely affecting one or more of these locations as a result of COVID-19.

In accordance with government guidance, Yuchai took preventative measures, such as increased sanitization and disinfecting in the workplace and production workshop, distancing in the dining hall, wearing of masks and temperature taking before entering the workplace, remote working and meetings etc. Yuchai also took various cost and cash flow mitigation measures to counter the negative impact of COVID-19, such as reducing or eliminating discretionary spending in certain areas such as marketing, non-essential training or capital expenditures and streamlining of staffing.

The Chinese government has announced a range of relief policy measures to support companies in China amid the COVID-19 pandemic. These include deferred tax payments, reducing rent, waiving administrative fees, subsidizing research and development costs, social insurance subsidies, and lowering lending rates. These measures have partially offset the adverse impact of the COVID-19 pandemic on Yuchai's operations.

Yuchai's operations and those of its suppliers are predominantly based in China and therefore have been adversely affected by the foregoing measures and recovery is ongoing. The market outlook for automobile industry sales remains volatile, national and global economic growth has slowed and the liquidity and financial conditions of some of our customers may have weakened. Yuchai has experienced and may continue to experience increased supply lead times, supply disruptions, reduced manufacturing capacity and limited transport and shipping options from and to affected regions. Relaxation of restrictions on economic and social activities may also lead to new cases which may lead to re-imposed restrictions. We cannot assure you that the COVID-19 pandemic can be eliminated or contained in the near future, or at all, or a resurgence or similar outbreak will not occur again.

In light of the uncertainties in the global market and economic conditions attributable to the COVID-19 pandemic, we will continue to evaluate the nature and extent of the impact of COVID-19 to our financial condition and liquidity. In the first quarter of 2022, China experienced another wave of COVID-19 resulted in several cities being locked down and stricter measures have been put in place. These have caused supply chain disruptions and adverse cost impacts to freights and logistics. The COVID-19 pandemic is still ongoing and its dynamic nature makes it difficult to forecast the pandemic's effects on the results of our operations for 2022 and in subsequent years. See also "Item 3. Key Information — Risk Factors — Outbreaks of communicable diseases may materially and adversely affect our business, financial condition and results of operations."

Business Expansion and Diversification Plan

Following the implementation of our business expansion and diversification plan as approved by our Board of Directors in 2005, we looked for new business opportunities to reduce our financial dependence on Yuchai and invested in the following companies:

Thakral Corporation Ltd

- The first step in implementing this plan occurred in March 2005 when through VDL, we acquired a 15.0% equity interest in TCL. As of December 2009, our equity interest in TCL was 34.4%. The TCL group invests directly or with co-investors in real estate and other investment opportunities which include property-backed financial instruments.
- Since fiscal year 2010, we have gradually reduced our equity interest in TCL with our total shareholding interest in TCL being 0.18% as of December 31, 2021 and 0.08% as of February 28, 2022. We would consider disposing our remaining shareholding in TCL in due course.

HL Global Enterprises Limited

The second step in the implementation of our business expansion and diversification plan occurred in February 2006 when we acquired a 29.1% equity interest in HLGE and certain convertible preference and debt securities through two wholly-owned subsidiaries for an aggregate consideration of approximately S\$132.0 million.

Relating to our interest in HLGE:

On January 13, 2012, our wholly-owned subsidiary, Grace Star Services Limited (“Grace Star”) transferred 24,189,170 Series B redeemable convertible preference shares in the capital of HLGE (the “Trust Preference Shares”) to Amicorp Trustees (Singapore) Limited (the “Trustee”) pursuant to a trust deed entered into between HLGE and the Trustee (the “Trust”). On January 16, 2012, the Trust Preference Shares were mandatorily converted into 24,189,170 new ordinary shares in the capital of HLGE (the “Trust Shares”) resulting in our shareholding interest in HLGE decreasing from 49.4% to 48.1%. On April 4, 2012, as a result of the conversion of all the outstanding Series A redeemable convertible preference shares held by our wholly-owned subsidiaries, VDL and Grace Star, into new ordinary shares in the capital of HLGE, our shareholding interest in HLGE increased from 48.1% to 48.9%.

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. As a result, based on the total outstanding ordinary shares of HLGE net of the Trust Shares, our shareholding interest in HLGE is stated as 50.2% for accounting purposes in the Company’s consolidated financial statements for the year ended December 31, 2021. However, these Trust Shares are not regarded as treasury shares under 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. Accordingly, based on the total outstanding ordinary shares of HLGE including the Trust Shares, our shareholding interest in HLGE is 48.9% as of December 31, 2021 and February 28, 2022. We consolidate the results of HLGE as a subsidiary. See Note 1.3 to the accompanying consolidated financial statements in Item 18.

As of December 31, 2021, our equity interest in HLGE was 48.9%. As of February 28, 2022, our equity interest in HLGE remained unchanged.

Critical Accounting Estimates

The accounting policies adopted by us are described in Note 2 of our consolidated financial statements in Item 18. The preparation of financial statements in accordance with IFRS requires our management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of our assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses.

The following discussion addresses certain of our accounting policies that are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment, assumptions and estimates by our management. Our management uses our historical experience and analyses, the terms of existing contracts, historical cost convention, industry trends, information provided by our agents and information available from other outside sources, as appropriate, when forming our judgment, assumptions and estimates. However, this task is inexact because our management is making judgment, assumptions and providing estimates on matters that are inherently uncertain. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates under different assumptions and conditions. The estimates are deemed as uncertain largely due to timing and changes over time associated with the unknown risks.

While we believe that all aspects of our consolidated financial statements should be studied and understood in assessing our current expected financial condition and results, we believe that the following accounting policies involve a higher degree of judgment, estimation and therefore warrant additional attention:

- identifying contract price and performance obligations in sales of engines;
- development costs;
- realization of deferred tax;
- impairment of non-financial assets; and
- derecognition of bills receivable.

Identifying contract price and performance obligations in sales of engines

We provide certain warranties for both general repairs and maintenance service as part of the sales of engines. For general repairs, such warranties are assurance-type warranties that are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Maintenance services are accounted for as service-type warranties that are distinguishable from other services and that allow customers to benefit from the service on its own. Hence, we have two separate performance obligations: one is the promise to transfer the engine and the other is to provide maintenance services after reaching certain on-road mileage or running hours. Consequently, we allocated a portion of the transaction price to the engines and the maintenance services based on relative stand-alone selling prices that are determined by a combination of expected cost plus a margin and residual approaches.

Development costs

Development costs on an individual project are recognized as an intangible asset when we can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- our 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; and
- the ability to measure reliably the expenditure during development.

Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

Realization of deferred tax

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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.

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

Any changes in tax legislations in China or adverse findings from the tax examination could have a material impact on our consolidated financial conditions or results of operations.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the forecasts for the next 8 to ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit ("CGU") being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 12 to the accompanying consolidated financial statements in Item 18.

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The Group's intangible assets comprised of goodwill, technology know-how, development costs and trademarks. Excluding goodwill, the carrying amounts of intangible assets as of December 31, 2019, 2020 and 2021 are RMB 741.5 million, RMB 1,271.3 million and RMB 1,545.9 million (US\$ 244.5 million), respectively. We periodically conduct an impairment evaluation on the conditions of our intangible assets. As of December 31, 2021, we recorded an accumulated impairment loss of RMB 126.7 million (US\$20.0 million) related to Technology know-how on 4Y20 engine production that was transferred from Group's development costs upon completion and available for use. This intellectual property right was previously held by Jining Yuchai Engine Company Limited ("Jining Yuchai") and transferred to Yuchai at agreed price in 2021. In 2018, Jining Yuchai commenced the production of 4Y20 engines and since 2019, production volume has gradually ramped up to meet market demand. Our management believes that there is no indication for further impairment in 2019, 2020 and 2021. Management has also considered that there is no significant change in the market that will have a favorable effect on the recoverable amount of this intangible asset and concluded that there is no reversal of impairment to be recognized in 2019, 2020 and 2021.

Since 2018, we capitalized development costs for new engines that comply with the National VI and Tier-4 emission standards, as well as the development costs relates to new energy products in accordance with IFRS. We have capitalized RMB 366.7 million in 2019, RMB 530.8 million in 2020 and RMB 313.6 million (US\$49.6 million) in 2021. During 2021, development costs with carrying amount of RMB 414.7 million (US\$65.6 million) was transferred to Group's intangible assets as technology know-how upon completion and available for use. As of December 31, 2021, our total accumulated capitalized development costs were RMB 992.3 million (US\$157.0 million). Since these development costs relate to on-going development efforts and the engines have not yet been made available for use, no amortization charges were recorded. In 2019, 2020 and 2021, we performed an impairment evaluation of those development costs and no impairment charge was recognized.

In 2019, Yuchai entered into a trademark license agreement with the GY Group under which Yuchai was granted an exclusive and perpetual license to use the thirty trademarks listed in the trademark license agreement for a one-time usage fee of RMB 169.8 million (US\$ 26.9 million). In 2019, 2020 and 2021, management performed an impairment review and concluded that no impairment charge was to be recognized. See Note 12 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of goodwill as of December 31, 2019, 2020 and 2021 remain the same at RMB 212.6 million, equivalent to US\$ 33.6 million as at December 31, 2021. We periodically conduct an impairment evaluation on the goodwill. No impairment was made for 2019, 2020 and 2021.

Our market capitalization as of December 31, 2019, 2020 and 2021 based on our closing share price was lower than our consolidated net assets. We performed our annual goodwill impairment tests at each financial year-end, and did not incur any impairment charge. We will continue to monitor the relationship of fair value to the recorded value of our consolidated net assets as economic events and changes to our stock price occur, and we may perform interim impairment tests in the future. If future results are not consistent with our assumptions and estimates and there continues to be decline in our market capitalization, we may be required to record impairment charges at a later date, which could materially and adversely affect our financial results.

Derecognition of bills receivable

We sell certain bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the de-recognition of bills receivable when discounted, we believe that the contractual rights to receive the cash flows from the asset have been transferred to the banks. Accordingly, bills receivable is derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 15 to the accompanying consolidated financial statements in Item 18.

Results of Operations

The following table sets forth our consolidated statement of operations as a percentage of our revenue for the last three fiscal years ended December 31, 2019, 2020 and 2021:

	Percentage of Revenue		
	Year Ended December 31,		
	2019	2020	2021
Revenue	100.0%	100.0%	100.0%
Cost of sales	-82.8%	-84.5%	-86.1%
Gross profit	17.2%	15.5%	13.9%
Other operating income, net	1.9%	1.8%	1.5%
Research and development expenses	-2.7%	-3.0%	-4.0%
Selling, distribution and administrative expenses	-10.0%	-8.6%	-8.3%
Operating profit	6.4%	5.7%	3.1%
Finance costs	-0.7%	-0.7%	-0.5%
Share of results of associates and joint ventures, net of tax	0.1%	-0.3%	-0.5%
Profit before tax	5.8%	4.7%	2.1%
Income tax expense	-1.0%	-0.9%	-0.2%
Profit for the year	4.8%	3.8%	1.9%
Attributable to:			
Equity holders of the Company	3.4%	2.7%	1.3%
Non-controlling interests	1.4%	1.1%	0.6%

2021 compared to 2020

Revenue for 2021 was RMB 21,265.9 million (US\$3,363.7 million) compared with RMB 20,581.2 million in 2020, an increase of 3.3%. The total number of diesel engines sold by Yuchai in 2021 was 456,791 units compared with 430,320 units in 2020, representing an increase of 26,471 units, or 6.2%, primarily due to higher engine sales in the bus engine markets, passenger vehicles engine sales, and off-road segments, particularly agriculture engines, and engines used for marine and power generation application, which more than offset the unit sales decline in the truck engine segment. According to CAAM, sales of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) decreased by 6.9% compared to 2020, as unit sales of trucks declined by 8.7% while unit sales of buses rose by 13.7%.

Cost of sales was RMB 18,313.8 million (US\$2,896.7 million) in 2021, an increase of 5.3% from RMB 17,391.6 million in 2020, primarily due to higher cost of materials for the production of National VI engines. Cost of sales represented 86.1% and 84.5% of revenue in 2021 and 2020, respectively. Cost of materials consumed was RMB 16,457.5 million (US\$2,603.1 million) in 2021, an increase of 6.2% from RMB 15,501.8 million in 2020. Material costs represent 77.4% of revenue in 2021 compared to 75.3% in 2020. Factory overheads (excluding depreciation and amortization) were RMB 827.7 million (US\$130.9 million) in 2021, representing a decrease of 9.5% from RMB 914.4 million in 2020. This represented 3.9% of revenue for 2021 and 4.4% for 2020. Depreciation and amortization was RMB 381.2 million (US\$60.3 million) in 2021, an increase of 16.6% from RMB 326.9 million in 2020, which represents 1.8% and 1.6% of revenue for 2021 and 2020, respectively.

Gross profit was RMB 2,952.1 million (US\$466.9 million) in 2021, a decrease of 7.4% from RMB 3,189.6 million in 2020. The gross profit margin was 13.9% in 2021 compared with 15.5% in 2020. The lower gross margin in 2021 was primarily attributable to a change in revenue mix, transition to National VI compliant engines and higher material costs but was partially mitigated by cost reductions during the year.

Other operating income, net was RMB 316.2 million (US\$50.0 million) in 2021, a decrease of 16.6% from RMB 378.9 million in 2020. The decrease was mainly due to lower government grants and reduced bank interest income compared with 2020.

R&D expenses increased by 35.5% to RMB 848.8 million (US\$134.3 million) compared with RMB 626.5 million in 2020, primarily due to lower capitalization of the R&D expenses. We continued with our initiatives to improve engine performances and qualities of engines compliant with China's National VI and Tier-4 emission standards, and to develop products for new energy vehicles. In 2021, total R&D expenditures including capitalized costs were RMB 1,162.4 million (US\$183.9 million), representing 5.5% of revenue in 2021, compared with RMB 1,157.3 million, representing 5.6% of revenue in 2020.

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SG&A expenses were RMB 1,756.0 million (US\$277.7 million) in 2021 compared with RMB 1,760.0 million in 2020, a slight decrease of 0.2%. These expenses represented 8.3% of revenue compared with 8.6% in 2020.

As a result, operating profit decreased by 43.9% to RMB 663.5 million (US\$105.0 million) in 2021 from RMB1,182.0 million in 2020. Operating margin was 3.1% in 2021 compared with 5.7% in 2020.

Finance costs decreased by 23.3% to RMB 115.9 million (US\$18.3 million) in 2021 from RMB 151.2 million in 2020. Lower finance costs mainly resulted from reduced term loan interest and less bills discounting compared to 2020.

The share of financial results of associates and joint ventures were a loss of RMB 95.9 million (US\$15.2 million) in 2021 as compared with a loss of RMB 59.0 million in 2020. The increased loss was primarily due to higher engine development expenses and warranty costs in a joint venture company.

Profit before tax was RMB 451.7 million (US\$71.4 million) in 2021 compared with RMB 971.9 million in 2020.

Income tax expense in 2021 was RMB 43.8 million (US\$6.9 million) compared with RMB 192.5 million in 2020, the decrease primarily due to lower income and higher tax credits on R&D-related costs. Our effective tax rates were 9.7% and 19.8% for 2021 and 2020, respectively.

As a result of the foregoing factors, profit for the year was RMB 407.9 million (US\$64.5 million) in 2021 compared with RMB 779.3 million in 2020, representing a decrease of 47.7%.

Net profit attributable to our shareholders decreased by 50.3% to RMB 272.7 million (US\$43.1 million) compared with RMB 548.9 million in 2020.

2020 compared to 2019

Revenue for 2020 was RMB 20,581.2 million compared with RMB 18,016.1 million in 2019, an increase of 14.2%. The total number of diesel engines sold by Yuchai in 2020 was 430,320 units compared with 376,148 units in 2019, representing an increase of 54,172 units, or 14.4%, primarily attributed to higher engine sales in the heavy- and medium-duty truck markets and off-road segments, particularly agricultural engines, which more than offset the unit sales decline in the bus segment. According to CAAM, sales of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) increased by 23.8% in 2020, the overall truck market increased by 27.5% and the bus market decreased by 7.7%.

Cost of sales was RMB 17,391.6 million in 2020, an increase of 16.6% from RMB 14,910.2 million in 2019, primarily due to higher cost of materials and factory overheads related to the production of National VI engines. Cost of sales represented 84.5% and 82.8% of revenue in 2020 and 2019, respectively. Cost of materials consumed was RMB 15,501.8 million in 2020, an increase of 17.7% from RMB 13,167.2 million in 2019. This was 75.3% of revenue in 2020 compared to 73.1% in 2019. Factory overheads (excluding depreciation) were RMB 914.4 million in 2020, representing an increase of 3.2% from RMB 885.8 million in 2019. This represented 4.4% of revenue for 2020 and 4.9% for 2019. Depreciation was RMB 326.9 million in 2020, an increase of 4.0% from RMB 314.4 million in 2019. Depreciation for 2020 was 1.6% of revenue compared to 1.7% in 2019.

Gross profit was RMB 3,189.6 million in 2020, an increase of 2.7% from RMB 3,105.8 million in 2019. The gross profit margin was 15.5% in 2020 compared with 17.2% in 2019. The 2020 gross margin was lower primarily due to the changes in sales mix as well as the higher material costs related to the production of National VI engines.

Other operating income, net was RMB 378.9 million in 2020, an increase of 12.0% from RMB 338.5 million in 2019. The increase was mainly due to higher government grants.

R&D expenses increased by 27.3% to RMB 626.5 million compared with RMB 492.2 million in 2019. R&D expenses were mainly for research and development of a portfolio of new engines compliant with the next-generation National VI and Tier-4 emission standards, and to improve engine performance and quality. In 2020, total R&D expenditures including capitalized costs were RMB 1,157.3 million, representing 5.6% of revenue in 2020, compared with RMB 859.0 million, representing 4.8% of revenue in 2019.

SG&A expenses were RMB 1,760.0 million in 2020 compared with RMB 1,806.0 million in 2019, a decrease of 2.5%. These expenses represented 8.6% of revenue compared with 10.0% in 2019. The decrease in SG&A expenses was primarily due to net reversal of provision for doubtful debt and lower warranty expenses in 2020 compared with 2019.

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As a result, operating profit increased by 3.1% to RMB 1,182.0 million in 2020 from RMB 1,146.1 million in 2019. Operating margin was 5.7% in 2020 compared with 6.4% in 2019.

Finance costs increased by 14.7% to RMB 151.2 million in 2020 from RMB 131.8 million in 2019. Higher finance costs mainly resulted from an increase in loan amounts in 2020 compared with 2019.

The share of financial results of associates and joint ventures decreased to a loss of RMB 59.0 million in 2020 as compared with a profit of RMB 19.0 million in 2019.

Profit before tax was RMB 971.9 million in 2020 compared with RMB 1,033.3 million in 2019.

Income tax expense in 2020 was RMB 192.5 million compared with RMB 172.6 million in 2019. Our effective tax rates were 19.8% and 16.7% for 2020 and 2019, respectively.

As a result of the foregoing factors, profit for the year was RMB 779.3 million in 2020 compared with RMB 860.7 million in 2019, representing a decrease of 9.5%.

Net profit attributable to our shareholders decreased by 9.3% to RMB 548.9 million in 2020 compared with RMB 604.9 million in 2019.

Inflation

The general annual inflation rate in China decreased to 0.9% in 2021 from 2.5% in 2020, according to the National Bureau of Statistics. The results of our operations may be affected by inflation, particularly rising prices for parts and components, labor costs, raw materials and other operating costs. See “Item 3. Key Information — Risk Factors — If China’s inflation increases or the prices of energy, raw materials or components increase, we may not be able to pass the resulting increased costs on to our customers and this may adversely affect our profitability or cause us to suffer operating losses.”

Seasonality

Yuchai’s results of operations in the first and second quarters of calendar years are generally marginally higher than in the third and fourth quarters of the corresponding year, due to slightly better production and sales performance in the first half compared to the second half of such calendar years. However, such seasonal trend was not materialized in 2021 and may not be the case in 2022 due to the COVID-19 disruption as well as the market changes driven by the emission standards transition. Any change in economic or market conditions may affect this pattern as it has occurred in the past. As a result, cash generated from operations may also be subject to some seasonal variation. See also “Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources.”

Liquidity and Capital Resources

Our primary sources of cash are funds from operations generated by Yuchai, as well as debt financing obtained by us. Our revenues are substantially generated by Yuchai and its subsidiaries, our Chinese operating companies, and are denominated in Renminbi. The Renminbi is currently freely convertible under the “current account” which includes dividends, trade and service related foreign exchange transactions; however, it is not currently freely convertible under the “capital account” which includes, among other things, foreign direct investment and overseas borrowings by Chinese entities. Some of the conversions between Renminbi and foreign currency under the capital account are subject to the prior approval of SAFE. As a result, there is no material restriction on the ability of the Chinese subsidiaries to transfer funds to Yuchai. However, certain funds transfers from Yuchai to us may be subject to the approval of SAFE. The General Affairs Department of SAFE promulgated circulars in August 2008 and July 2011, pursuant to which, Renminbi converted from capital contribution in foreign currency to a domestic enterprise in China can only be used for the activities that are within the approved business scope of such enterprise and cannot be used for China domestic equity investment, acquisition, giving entrusted loans or repayment of intercompany loans, with limited exceptions. On March 30, 2015, SAFE issued a notice to take effect from June 1, 2015 loosening the explicit prohibition against the use of Renminbi converted from capital contribution in foreign currency for domestic equity investment as set out in its circulars of August 2008 and July 2011. On June 9, 2016, SAFE issued a notice which became effective on the same day further allowing the use of Renminbi converted from capital contribution in foreign currency to be used for providing loans to affiliated enterprises of foreign invested enterprises. As the new policies have recently been implemented, its full applicability to a foreign-invested enterprise is currently uncertain. See “Item 3. Key Information — Risk Factors — We may not freely convert Renminbi into foreign currency, which could limit our ability to obtain sufficient foreign currency to satisfy our foreign currency requirements or to pay dividends to shareholders.”

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Our primary cash requirements are for working capital, capital expenditures to complete the expansion of production capacity and new product developments, dividend payments and other operational requirements. We believe that our sources of liquidity are sufficient for our operational and working capital requirements over the next twelve months from the date of this Annual Report. However, under the current market conditions there can be no assurance that our business activity will be maintained at the expected level to generate the anticipated cash flows from operating activities. If the current market conditions deteriorate, we may experience a decrease in demand for our products, resulting in our cash flows from operating activities being lower than anticipated. If our cash flows from operations are lower than anticipated, we may need to obtain additional financing which may not be available on favorable terms, or at all. Other factors which may affect our ability to generate funds from operations include increased competition, fluctuations in customer demand for our products, our ability to collect and control our level of accounts receivable, the status of our investment in Yuchai under Chinese law and the implementation of the Reorganization Agreement and the Cooperation Agreement. See “Item 4. Information on the Company — History and Development — Reorganization Agreement.”

Our cash and cash equivalents are held in Renminbi, Singapore dollar, US dollar and Euro in accounts managed by third party financial institutions. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subjected to other adverse conditions in the financial markets. As of the date of this filing, we have experienced no loss or lack of access to cash in our operating accounts.

As of December 31, 2021, we had approximately RMB 5,331.6 million (US\$843.3 million) in cash and bank balances on a consolidated basis. We believe that if we are considered on a stand-alone basis without our investment in Yuchai, we would find it difficult to raise new capital (either debt or equity) on our own.

As of December 31, 2021, we had outstanding bank borrowings of RMB 2,203.0 million (US\$348.5 million), all incurred by Yuchai.

We expect that cash generated from operations should provide us with sufficient financial flexibility to satisfy future bank obligations, capital expenditures and projected working capital requirements. However, at certain times, cash generated from operations is subject to seasonal fluctuations. As our business continues to grow, we will also require additional funds for increased working capital requirements and to fund our continued business expansion plans. We expect to fund our working capital requirements primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank borrowings, issuance of short-term financing bonds (“STFBs”), medium-term notes (“MTNs”), ultra short-term bonds (“USTB”), follow-on equity offerings, discounting of bills receivable, accounts receivable factoring or other financing activities by Yuchai.

Yuchai has established banking relationships with a number of domestic Chinese banks, each of which will review Yuchai’s loan applications on a case-by-case basis. In addition, CYI also has obtained credit facilities from certain banks in Singapore.

The securities issued by Yuchai since 2013 are as follows:

- On May 28, 2013, upon the receipt of approval from its Board of Directors, shareholders and China’s National Association of Financial Market Institutional Investors, or NAFMII to issue MTNs amounting to RMB 1.6 billion with a term of three years, Yuchai issued the first tranche of the MTNs amounting to RMB 1 billion. The MTNs bore a fixed annual interest rate of 4.69% and upon maturity on May 30, 2016, were fully repaid. All the proceeds from the issuance of the MTNs were used by Yuchai as working capital.
- On April 8, 2015, upon the receipt of approval from its Board of Directors, shareholders and NAFMII to issue USTBs amounting to RMB 2 billion with a term not exceeding 270 days, Yuchai issued the first tranche of the USTB amounting to RMB 400 million. The first tranche of the USTBs bore a fixed annual interest rate of 4.9% and upon maturity on May 9, 2015, were fully repaid. All the proceeds from the issuance of the USTBs were used by Yuchai as working capital and repayment of loans. On September 16, 2015, Yuchai issued the second tranche of the USTB amounting to RMB 400 million. The second tranche of the USTBs bore a fixed annual interest rate of 3.9% and upon maturity on June 13, 2016, were fully repaid. All the proceeds from the issuance of the USTBs were used by Yuchai for the repayment of loans. NAFMII’s approval to issue USTB of RMB 2 billion ceased to be valid after two years commencing from February 28, 2015.

In addition, CYI has other credit facilities granted by banks in Singapore as follows:

- On June 24, 2020, we entered into an agreement with Sumitomo Mitsui Banking Corporation, Singapore Branch for the renewal of a US\$30.0 million facility. The new unsecured multi-currency revolving credit facility has an uncommitted aggregate value of US\$30.0 million and it has no expiry date. The maximum tenor of each drawdown under the facility is six months. The facility may be used to finance our general working capital requirements. The terms of the facility require, among other things, that Hong Leong Asia retained ownership of the special share and that we remain a subsidiary (as defined in the facility agreement) of Hong Leong Asia. The terms of the facility also include certain financial covenants with respect to our consolidated tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year not being less than US\$200 million and the ratio of our consolidated total net debt (as defined in the agreement) to consolidated tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

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In 2021, net cash used in investing activities was RMB 738.8 million (US\$116.9 million). The outflow was mainly due to the purchase of property, plant and equipment of RMB 572.0 million (US\$90.5 million) and spending on technology development of RMB 287.5 million (US\$45.5 million), partially offset by interest received of RMB 125.0 million (US\$19.8 million) and proceeds from government grants of RMB 51.9 million (US\$8.2 million). In 2020, net cash used in investing activities was RMB 785.8 million. The outflow was mainly due to the purchase of property, plant and equipment of RMB 584.7 million and spending on technology development of RMB 500.1 million, partially offset by proceeds from government grants of RMB 123.2 million and interest received of RMB 171.6 million. In 2019, net cash used in investing activities was RMB 810.5 million. The outflow was mainly due to the purchase of property, plant and equipment of RMB 749.1 million and spending on technology development of RMB 345.1 million, partially offset by proceeds from government grants of RMB 191.5 million and interest received of RMB 173.7 million.

In 2021, net cash used in financing activities was RMB 838.6 million (US\$132.6 million). The outflow was mainly due to payment of dividend of RMB 672.6 million (US\$106.4 million) and payment for finance costs of RMB 138.9 million (US\$22.0 million). In 2020, net cash used in financing activities was RMB 461.8 million. The outflow was mainly due to payment of dividend of RMB 451.4 million and payment for finance costs of RMB 184.2 million, partially offset by net borrowings of RMB 173.7 million. In 2019, net cash used in financing activities was RMB 589.4 million. The outflow was mainly due to payment of dividend of RMB 441.9 million and payment of finance costs of RMB 139.1 million.

In relation to cash management, it is our practice to consider various financing options so as to minimize financing costs. The cash generated from operations is used for working capital, capital expenditures, dividend payments and other operational requirements.

Our working capital as of December 31, 2021 was RMB 5,348.2 million (US\$845.9 million) compared with RMB 6,209.2 million as of December 31, 2020.

As of December 31, 2021, we had loans and borrowings totaling RMB 2,203.0 million (US\$348.5 million).

As part of our business strategy, we seek opportunities from time to time to invest in China domestic manufacturers of diesel engine parts and components, as well as in other related automotive businesses, including truck manufacturers, and insurance, warranty servicing and credit support for diesel engine customers. We may make such investments and acquisitions with funds provided by operations, future debt or equity financing or a combination thereof. The following table sets forth information on payments related to our material contractual obligations for the periods indicated as of December 31, 2021:

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>			
	<u>Total</u>	<u>Less than</u>	<u>1-5</u>	<u>More than</u>
	<u>RMB</u>	<u>1 Year</u>	<u>Years</u>	<u>5 Years</u>
		<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
		<u>(in millions)</u>		
Short-term debt ⁽¹⁾	2,231.9	2,130.4	101.5	—
Lease liabilities ⁽¹⁾	41.8	28.1	13.7	—
Capital expenditures ⁽²⁾	731.3	278.9	351.5	100.9
Total	<u>3,005.0</u>	<u>2,437.4</u>	<u>466.7</u>	<u>100.9</u>

⁽¹⁾ Includes contractual interest payments.

⁽²⁾ The timing of the payment will depend on the actual progress of work.

Capital Expenditures

Our capital expenditures were RMB 1,263.4 million, RMB 1,055.0 million and RMB 766.4 million (US\$121.2 million) in 2019, 2020 and 2021, respectively. In 2019, 2020 and 2021, these expenditures were used primarily for expanding and upgrading Yuchai's production capacity in Yulin City, Guangxi, and for technology development for new engines. We funded these capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that was insufficient, from bank loans and other financing activities by Yuchai.

Capital expenditures for expanding and upgrading of existing production facilities are used to comply with the forthcoming new engine emission standards, improve production flow, improve safety measures, improve testing capability, improve environment control, increase warehousing capacity and other routine upgrading and replacement. Capital expenditures for building new facilities are part of Yuchai's ongoing efforts to develop new products and improve the quality of existing products.

As our business continues to grow, we will also require additional funds for capital expenditures. As of December 31, 2021, we had committed capital expenditures for upgrading existing facilities and building new facilities in the amount of RMB 731.3 million (US\$115.7 million). We expect to continue funding our capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank loans and other financing activities by Yuchai. Yuchai's ability to obtain financing is limited by regulations in China. Also, certain additional capital we contribute to Yuchai would require, among other things, the approval of the Ministry of Commerce which has broad discretion with respect to such approval.

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Off-Balance Sheet Arrangements

As of December 31, 2020 and 2021, in order to facilitate customer and supplier arrangements, Yuchai had issued irrevocable letter of credits of RMB 54.4 million and RMB 31.7 million (US\$5.0 million), respectively. These were issued for purchase of production materials, machinery and equipment.

As of December 31, 2020 and 2021, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation amounted to RMB 2,265.2 million and RMB 293.0 million (US\$46.3 million), respectively. These bills receivables were received from customers in settlement for their purchases. Yuchai discounted these bills receivables to fund its operations, as and when required.

As of December 31, 2020 and 2021, outstanding bills receivable endorsed to suppliers for which Yuchai had retained a recourse obligation amounted to RMB 1,892.9 million and RMB 2,583.1 million (US\$408.6 million), respectively. The bills receivables received from customers can be endorsed to suppliers as a form of settlement of Yuchai's purchase for production materials.

Management has assessed the fair value of the recourse obligation arising from these discounted bank bills and endorsed bank bills to be immaterial based on the Company's default experience and the credit status of the issuing banks.

Research and Development

See "Item 4. Information on the Company — Business Overview — Research and Development."

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position, results of operations or cash flows is disclosed in Note 2.5 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Executive Officers of the Company

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of February 28, 2022, there were nine members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck, Stephen Ho Kiam Kong and Hoh Weng Ming as its nominees. Messrs. Li Hanyang and Wu Qiwei are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming ⁽¹⁾⁽⁴⁾	President and Director	2011
GAN Khai Choon ⁽¹⁾⁽⁴⁾	Director	1995
KWEK Leng Peck ⁽¹⁾⁽²⁾	Director	1994
STEPHEN HO Kiam Kong	Director	2020
LI Hanyang ⁽¹⁾	Director	2021
WU Qiwei ⁽¹⁾	Director	2012
NEO Poh Kiat ⁽¹⁾⁽²⁾⁽³⁾	Director	2005
HO Raymond Chi-Keung ⁽²⁾⁽³⁾	Director	2004
XIE Tao ⁽¹⁾⁽³⁾	Director	2019
LOO Choon Sen ⁽¹⁾	Chief Financial Officer	2021
Conyers Corporate Services (Bermuda) Limited ⁽⁵⁾	Secretary	2015

Mr. Yan Ping retired as Director at the Annual General Meeting of the Company on July 23, 2021.

Dr. Han Yiyong resigned from his position as Director of the Company effective April 30, 2021.

Dr. Phung Khong Fock Thomas resigned as Chief Financial Officer of the Company with effect from June 1, 2021.

⁽¹⁾ Also a Director of Yuchai.

⁽²⁾ Member of the Compensation Committee.

⁽³⁾ Member of the Audit Committee.

⁽⁴⁾ Also a Director of HLGE.

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

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

Dato' Gan Khai Choon is a Director of the Company, Yuchai, Grace Star, Venture Delta and Millennium & Copthorne Hotels Management (Shanghai) Limited. He is also the Non-Executive Chairman of HLGE and Beijing Fortune Hotel Co., Ltd., as well as the Managing Director of Hong Leong International (Hong Kong) Limited and Executive Director of Hong Leong Hotel Development Limited. Dato' Gan has extensive experience in the banking, real estate investment and development sectors and has been involved in a number of international projects for the Hong Leong Group of companies, which include the management and development of the Grand Hyatt Taipei and the Beijing Riviera. He holds a Bachelor of Arts Degree (Honors) in Economics from the University of Malaya. Dato' Gan is related to Mr. Kwek Leng Peck.

Mr. Kwek Leng Peck is a Director of the Company. He is the Executive Chairman of Hong Leong Asia and an Executive Director of Hong Leong Investment Holdings Pte. Ltd. and Hong Leong Corporation Holdings Pte. Ltd. He also sits on the boards of HL Technology, Hong Leong China, Well Summit Investments Limited, Yuchai, and Hong Leong Finance Limited, as well as other affiliated companies. Mr. Kwek has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management. Mr. Kwek is related to Dato' Gan Khai Choon.

Mr. Stephen Ho Kiam Kong is a Director of the Company, Grace Star, Venture Delta. He is also the Chief Executive Officer and a Director of Hong Leong Asia. He was previously the Group Chief Financial Officer for Wilmar International Limited, an agribusiness group, for more than eight years. Before this, he was with Philips Electronics for 12 years and his last position was the Senior Vice President and Chief Financial Officer of Philips Electronics China Group, Greater China operation based in Shanghai. Prior to his corporate roles, Mr. Ho held regional managerial positions in business development, risk management and trading functions with several large international banks based in Singapore. Mr. Ho was awarded the Best Chief Financial Officer for the Year 2018 for large-cap companies in the Singapore Corporate Awards. During his tenure in Shanghai, Mr. Ho served as the Chairman of the Shanghai Board of the European Chamber of Commerce of China and received the Magnolia Silver Award from the Shanghai Municipality Government. Mr. Ho holds a Bachelor of Commerce and Administration Degree from Victoria University of Wellington, New Zealand and had completed the Advanced Management Program at the Harvard Business School, Boston, United States.

Mr. Li Hanyang was appointed as Director of the Company on May 12, 2021. He was also Chairman of Yuchai's Board and Chairman of the GY Group (a 17.20% shareholder of the Company). Mr. Li started his career with Yuchai as a production preparation section chief in 1993 and was gradually promoted to deputy general manager of Yuchai in 2000. He was transferred to GY Group in 2002 and since then he has served in various managerial position including chief engineer, director, chairman and party secretary of GY Group and its subsidiaries. Mr. Li holds a Bachelor's degree in mechanical design and manufacturing from Tsinghua University and an MBA from the School of Management, Huazhong University of Science and Technology.

Dr. Wu Qiwei was elected as Director of the Company on July 23, 2021 after serving as Alternate Director of the Company to Mr. Yan Ping since 2012. Dr. Wu is also the President and a director of Yuchai. He previously served as one of the Deputy General Managers of Yuchai and was in charge of sales and marketing. He holds a Bachelor of Engineering Degree from Hunan University, an MBA degree from the Huazhong University of Science and Technology and a Doctorate in Marine Engineering from Wuhan University of Technology.

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

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an Independent Director on April 30, 2013. Mr. Ho is a practicing arbitrator. From 2008 to 2011, he was the Secretary General of the Law Society of Hong Kong and prior to joining the Law Society secretariat in 2006, he had practiced law as a solicitor for 23 years with a wide range of experience in transactional and contentious matters. Mr. Ho holds Bachelor of Laws and Master of Social Sciences degrees 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 U.K. Chartered Institute of Arbitrators and a Member of Silicon Valley Arbitration and Mediation Center. Mr. Ho is currently listed on the Panel of Arbitrators of Hong Kong International Arbitration Centre. He was admitted as a Solicitor in Hong Kong and England & Wales; and was a Barrister and Solicitor in the Australian Capital Territory and the Province of British Columbia, Canada; and is currently a non-practicing member of the Law Societies in these jurisdictions. Mr. Ho is also a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

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

Mr. Loo Choon Sen was appointed Chief Financial Officer of the Company on June 3, 2021 and a Director of Yuchai effective November 30, 2021. Mr. Loo has over 23 years of experience as a leader in financial operations. Since he joined Cameron International Corporation in 2001, he had held various positions within the group including the positions as Director of Finance for Canada and Director of Financial Services for Asia Pacific Middle East. In 2016, Schlumberger Limited acquired Cameron International Corporation and since then he was the Director of Finance for Schlumberger Limited's Cameron Product Lines for Asia Pacific Middle East. His last job was with TechnipFMC covering the Asia Pacific region for Surface International. Mr. Loo started his career as an auditor and he was the Financial Controller for a subsidiary of a listed Company in KLSE based out of Papua New Guinea in his early career. Mr. Loo holds a Bachelor of Commerce degree in Finance and Accounting from Curtin University of Technology, Australia and is a CPA in Australia.

Conyers Corporate Services (Bermuda) Limited was appointed Secretary of the Company on January 28, 2015.

Audit Committee

The Audit Committee is comprised of three independent non-executive directors, namely Messrs. Xie Tao (Chairman), Neo Poh Kiat and Ho Raymond Chi-Keung. The Audit Committee oversees the performance of our internal audit function and our independent registered public accountants. It also reviews our quarterly financial statements and effectiveness of our financial reporting process and material internal controls including financial, operational and compliance controls. The Board has designated Mr. Xie Tao as our Audit Committee Financial Expert.

Compensation Committee

The members of the Compensation Committee are Messrs. Kwek Leng Peck (Chairman), Neo Poh Kiat and Ho Raymond Chi-Keung. The Compensation Committee reviews our general compensation structure as well as reviews, recommends or approves executive appointments and remuneration, subject to ratification by our Board of Directors and supervises the administration of our employee benefit plans, including our Equity Incentive Plan (as defined herein).

Directors and Executive Officers of Yuchai

According to Yuchai's Articles of Association, the Board of Directors of Yuchai shall consist of 13 members. Currently, there are 12 members elected to and serving on Yuchai's Board of Directors. Yuchai's Articles of Association entitle us (as the indirect holder of the Foreign Shares), through our six wholly-owned subsidiaries, to designate nine Directors and entitle the Chinese shareholders to designate four Directors. These nomination rights were acknowledged and confirmed by Yuchai as part of the terms of the Reorganization Agreement. Pursuant to the terms of the Reorganization Agreement, Yuchai's Board of Directors has been reconstituted with the Company entitled to elect nine of Yuchai's 13 directors, again reaffirming the Company's right to effect all major decisions relating to Yuchai. Pursuant to and subject to the conditions in the Shareholders Agreement described under "Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions," and by virtue of the special share, Hong Leong Asia is entitled to designate five of the nine Yuchai Directors designated by us. Pursuant to the Shareholders Agreement and our Bye-Laws, the Yuchai Directors designated by us will vote as a block in accordance with the vote of the majority of such Directors. As part of the terms of the Reorganization Agreement, Yuchai affirmed our continued rights, as Yuchai's majority shareholder, to direct the management and policies of Yuchai through Yuchai's Board of Directors. The directors and executive officers of Yuchai as of February 28, 2022 are identified below.

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Name	Position in Yuchai	Year First Elected or Appointed Director or Officer
LI Hanyang ⁽¹⁾	Chairman of the Board of Directors	2021
HOH Weng Ming ⁽¹⁾	Deputy Chairman of the Board of Directors	2008
WU Qiwei ⁽¹⁾	Director and President	2011
GAN Khai Choon ⁽¹⁾	Director	2007
KWEK Leng Peck ⁽¹⁾	Director	2005
NEO Poh Kiat ⁽¹⁾	Independent Director	2008
XIE Tao ⁽¹⁾	Independent Director	2019
LU Yuming	Director	2014
LOO Choon Sen	Director	2021
YAO Huaxiong	Director and Vice President	2021/2018
GU Tangsheng	Director	2005
LAI Tak Chuen Kelvin ⁽²⁾	Director and Chief Business Controller	2011
TAY Hui Boon Kelly ⁽²⁾	Financial Controller seconded to Yuchai	2008
QIN Xiaohong	Vice President and Chief Accountant	2015/2022
WANG Limin	Vice President	2015
TAN Guirong	Vice President	2015
NING Xingyong	Vice President	2015
CHEN Hai	Vice President	2021
ZHONG Yuwei	Vice President	2021
LIANG Heping	Vice President	2021
CAI Xiaohong	Vice President	2017

Mr. Yan Ping retired as Chairman of the Board of Directors of Yuchai on March 11, 2021.

Dr. Han Yiyong resigned from his positions as Director and Secretary of the Board of Directors of Yuchai on August 31, 2021.

Dr. Phung Khong Fock Thomas resigned as Director of Yuchai effective June 1, 2021.

⁽¹⁾ Also a Director of the Company.

⁽²⁾ Seconded of the Company, whose salaries and expenses are paid by the Company.

For information about Messrs. Li Hanyang, Hoh Weng Ming, Wu Qiwei, Gan Khai Choon, Kwek Leng Peck, Neo Poh Kiat, Xie Tao, and Loo Choon Sen, see “Item 6. Directors, Senior Management and Employees — Directors and Executive Officers of the Company.”

Mr. Lu Yuming was a Director of Yuchai. He stepped down from the Chief Accountant of Yuchai on February 24, 2022 after his seven years’ services since February 3, 2015. Mr. Lu holds a Bachelor’s degree in Financial Management (Capital Evaluation) from Zhejiang University and has worked in Yuchai’s finance department since 2001.

Mr. Yao Huaxiong was appointed Director of Yuchai effective September 17, 2021. He was also a Vice President of Yuchai since June 2018 after serving as the Head of Technology from December 2016. Mr. Yao holds a Bachelor’s degree in Engineering from Jilin University in China.

Dr. Gu Tangsheng is a Director of Yuchai and a Director and President of the GY Group. He holds a PhD in Physics from Zhongshan University.

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

Ms. Tay Hui Boon Kelly is the Financial Controller of the Company seconded to Yuchai. She has been assigned by us to assist Yuchai in its financial accounting, reporting and compliance with local and statutory requirements, and the implementation of financial policies, procedures, financial budgeting and review of investments. Ms. Tay holds a Bachelor degree in Accounting and Financial and Information Management from the University of Sheffield, United Kingdom. She has over fifteen years of experience in management costing and accounting and gained substantial experience from working in various parts of China.

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Ms. Qin Xiaohong has been serving as a Vice President of Yuchai since 2015. She joined Yuchai in 1990, held the position of Chief Accountant from July 2007 to September 2013 and the Chief Economist from September 2013 to July 2015. Ms. Qin was re-appointed as Chief Accountant of Yuchai on February 24, 2022. She holds a Master's degree in Business Administration from Guangxi University.

Dr. Wang Limin has been serving as a Vice President of Yuchai since 2015 as after serving as a Deputy General Manager of Yuchai from 2013. He holds a Bachelor's degree in Vehicle Engineering from Hubei Automotive Industrial College and a PhD in Advanced Manufacturing from Tianjin University.

Mr. Tan Guirong has been serving as Vice President from 2015. He holds a Master's degree in Business Administration from Huazhong University of Science and Technology.

Mr. Ning Xingyong has been serving as Vice President from 2015. He holds a Bachelor's degree in Foundry Engineering from Guangxi University.

Mr. Chen Hai was appointed a Vice President of Yuchai in January 2021 after serving as Senior Quality Controller. He holds a Bachelor's degree from Wuhan University of Technology and a Master's degree from Hunan University.

Mr. Zhong Yuwei was appointed a Vice President of Yuchai in May 2021 after serving as a Deputy General Manager since January 2012. He holds a Bachelor's degree in Internal Combustion Engineering from Tsinghua University.

Mr. Liang Heping was appointed a Vice President of Yuchai in May 2021. He has been serving as General Manager in Y&C since January 2010. Mr. Liang holds a Bachelor's degree in Thermal Power Machinery from Tongji University and a Master's degree in Business Administration from Tsinghua University.

Mr. Cai Xiaohong was appointed a Vice President of Yuchai in December 2017 after serving as Senior Quality Controller from October 2016. He holds a Diploma in Engineering Machinery in Guangxi Hydropower College.

Pursuant to Yuchai's Articles of Association, which were amended on August 16, 2007 and approved by the Guangxi Department of Commerce on December 2, 2009, Yuchai's shareholders have authority, by way of a meeting, over all matters of importance relating to Yuchai, including (i) making decisions in relation to the business plan; (ii) the review and approval of reports submitted by the Board of Directors of Yuchai; (iii) the approval of Yuchai's plans for distribution of profits and recovery of losses; (iv) the approval of Yuchai's annual capital, operating budget and year-end financial statements of final accounts, balance sheet, profit and loss statements and other accounting statements; (v) making decisions of the issuance of new shares or other securities, the expansion of the scope of any subscription of shares, the approval of the transfer procedures for Yuchai's share certificates, and the public offering and listing of Yuchai shares within and outside China; (vi) the nomination, election, dismissal and compensation of members of the Board of Directors; (vii) significant sales or purchases of assets, or any division, merger, acquisition, termination, liquidation or other major corporate action of Yuchai; (viii) making amendments to Yuchai's Articles of Association; (ix) the election and replacement of supervisors nominated by and represented by the shareholders in Yuchai's Board of Supervisors; (x) making decisions of compensation of Yuchai's Board of Supervisors; (xi) motions presented by shareholders holding 3% or more of the outstanding shares of Yuchai; (xii) the review and approval of reports submitted by Yuchai's Board of Supervisors; (xiii) to increase or decrease the registered capital of Yuchai; (xiv) approval of all relevant matters submitted by the Board concerning the provision of guarantees by Yuchai; (xv) approval of all relevant matters submitted by the Board concerning the proposed loans or borrowings to Yuchai, and proposed loans to be provided by Yuchai; and (xvi) other matters required to be resolved by the shareholders' meeting. Yuchai's shareholders are entitled to preemptive rights to subscribe pro rata in accordance with their ownership percentage for any new Yuchai shares or other equity interests offered by Yuchai at a price and on terms at least equivalent to those offered to new subscribers.

Yuchai's Board of Directors reports directly to the shareholders of Yuchai and is the principal executive authority responsible for major decisions relating to Yuchai, mainly including (i) the execution of resolutions adopted by the shareholders; (ii) making decisions on Yuchai's business plans and investment programs; (iii) the preparation of Yuchai's annual financial budget, final accounts, dividend distribution plan, and plan of recovery of loss; (iv) the preparation and submission to the shareholders' meeting for approval of the plans to increase or decrease Yuchai's registered capital, plans for issuances of Yuchai securities and plans for merger, division, change of corporate form or dissolution; (v) to fill vacancies on the Board provided the selected replacement is nominated by and represents the same shareholders as his or her predecessor; (vi) adoption of various corporate policies and rules; (vii) decision of internal management organization; (viii) the appointment of senior executive officers as recommended by the Yuchai's Nominations Sub-committee of Board and their dismissals as well as the appointment of senior advisers to the Board; (ix) the establishment of a financial committee; (x) approval of sales, purchases, transfers and leases of material assets with a value in excess of US\$3 million but less than US\$6 million and which are not contemplated in Yuchai's approved budgets; (xi) approval of guarantees provided by Yuchai with a value in excess of US\$3 million but less than US\$6 million; (xii) review of all relevant matters relating to proposed loans or borrowings to Yuchai, and proposed loans to be provided by Yuchai which will be further submitted to Yuchai's shareholders for approval by way of a meeting; (xiii) to prepare and submit to the shareholders' meeting for adoption of the amendments of the Articles of Association; (xiv) to recommend the shareholders' meeting for approval of the appointment or dismissal of the accounting firms for Yuchai's audit matters; and (xv) any other matters that may be determined by the Board of Directors in accordance with Yuchai's Articles of Association.

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In order to further strengthen our level of corporate governance, we have continued to seek to cause Yuchai to adopt comprehensive corporate governance guidelines to put procedures in place to improve the management and governance of Yuchai. The 2007 version of corporate governance guidelines of Yuchai were approved and adopted by Yuchai's Board of Directors and shareholders' meeting on July 27, 2007 and August 16, 2007, respectively. The corporate governance guidelines and practices adopted by Yuchai continue to be fine-tuned on an ongoing basis such that Yuchai follows international best practices and which are in line with the Company Law in the PRC. Various board committees (inter alia, an Audit Sub-Committee, a Remunerations Sub-Committee, a Nominations Sub-Committee and a Financial Sub-Committee) have been established and are currently functioning in accordance with their charters. The Financial Sub-Committee is responsible for reviewing the necessity and feasibility of new projects and making recommendations to Yuchai's Board of Directors. Yuchai and the Company are audited by the same firm of independent auditors.

The Board of Directors of Yuchai shall consist of 13 directors appointed for three-year terms pursuant to Yuchai's current Articles of Association. A total of nine directors shall be elected from nominees of holders of Foreign Shares (including at least two independent directors) and a total of four directors shall be elected from nominees of holders of GY Group Shares and Legal Person Shares. Actions generally may be taken by a majority vote of all directors of Yuchai's Board, apart from the following major matters which shall be passed by a two-thirds vote of all directors of Yuchai's Board, i.e., (i) the plans to increase or decrease Yuchai's registered capital, plans for issuances of bonds; (ii) plans for merger, division, change of corporate form or dissolution; (iii) the amendments of the Articles of Association; (iv) the election of Chairman of Yuchai's Board. Attendance of at least seven directors (four representing holders of Foreign Shares and three representing holders of GY Group Shares or Legal Person Shares) constitutes a quorum for the Board meeting.

We are entitled under Yuchai's Articles of Association to elect nine of Yuchai's 13 directors, thereby entitling us to effect all major decisions relating to Yuchai. As part of the terms of the Reorganization Agreement and the Cooperation Agreement, Yuchai affirmed our continued rights, as Yuchai's majority shareholder, to direct the management and policies of Yuchai through Yuchai's Board of Directors. A two-thirds vote of the outstanding shares at a shareholders' meeting at which a quorum is present is required for major corporate actions, including (i) the issuance of new shares or other securities, the expansion of the scope of any subscription of shares, the transfer procedures for Yuchai's share certificates, and the public offering and listing of Yuchai shares within and outside China; (ii) significant sales or purchases of assets, or any division, merger, acquisition, termination, liquidation or other major corporate action of Yuchai; (iii) amendment to Yuchai's Articles of Association; (iv) to increase or decrease the registered capital of Yuchai. Attendance of shareholders representing at least two-thirds of the outstanding Yuchai shares constitutes a quorum for shareholder meetings considering such major corporate actions.

However, although our nominees constitute a majority of the Board of Directors of Yuchai, there have, on various occasions in the past, been periods of time when no board meetings have been held, despite Yuchai's Articles of Association at the time requiring the Board of Directors to meet at least once every six months as well as upon repeated requests by us. Prior to the execution of the Reorganization Agreement, Yuchai's Articles of Association provided that a quorum for a board meeting was at least five Directors, three representing holders of Foreign Shares and two representing holders of GY Group Shares or Legal Person Shares. However, subsequent to the execution of the Reorganization Agreement, these quorum requirements have been amended in Yuchai's new Articles of Association as approved by the Guangxi Department of Commerce on December 2, 2009. Under the new Articles of Association, a quorum for a board meeting shall be at least seven directors, four representing holders of Foreign Shares and three representing holders of GY Group Shares or Legal Person Shares. If the quorum cannot be met for two consecutive times, then any seven directors present shall constitute the quorum for the third meeting. In addition, under Yuchai's new Articles of Association, board meetings are to be convened at least three times a year.

Yuchai's management consists of a Chairman, a President and several Vice Presidents, other senior officers designated by its Board of Directors and senior managers and officers designated by us. Yuchai's management handles daily operations and implements the corporate policies under the direction and guidance of its Board of Directors.

As a general matter, we require access to certain financial books and records of Yuchai so as to be able to monitor our investment in Yuchai and to prepare our consolidated financial statements. In early 2004, Yuchai temporarily denied us such access. In response, we initiated dialogue with representatives of Yuchai and shortly thereafter agreed with Yuchai to resume allowing us access to the financial books and records of Yuchai. Moreover, and as disclosed elsewhere in this Annual Report, we require the cooperation of Yuchai and its Chinese shareholders and have from time to time experienced certain problems in obtaining such cooperation. In response to such problems, we entered into dialogue with representatives of Yuchai and its Chinese shareholders and thereafter executed the Reorganization Agreement, which we believe addresses these problems. As part of the terms of the Reorganization Agreement, Yuchai agreed that it would seek the requisite shareholder approval prior to entering into any material transactions (including any agreements or arrangements with parties related to Yuchai or any of its shareholders) and that it would comply with its governance requirements. However, no assurances can be given regarding implementation of the terms of the Reorganization Agreement.

We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and we have a team working full-time at Yuchai's principal manufacturing facilities in Yulin city. In addition, the President, Chief Financial Officer and a manager proficient in Section 404 of Sarbanes — Oxley Act of 2002, or SOX, usually travel monthly, for as much as up to two weeks at a time, to Yuchai to actively participate in Yuchai's operations and decision-making process. See also "Item 3. Key Information — Risk Factors — Our financial condition, results of operations, business and prospects may be adversely affected if we are unable to implement the Reorganization Agreement and the Cooperation Agreement."

Compensation

Service Fees

Pursuant to the Amended and Restated Shareholders Agreement of the Company dated November 9, 1994, Hong Leong Asia is entitled to receive no less than US\$500,000 from either Yuchai or the Company for management services as long as Hong Leong Asia remains the controlling shareholder, and provided that the services include those of the President and Chief Financial Officer. With effect from January 2008, further to agreements entered into between the Company and Yuchai, Yuchai pays the Company, instead of Hong Leong Asia, consultancy and management services fee of US\$1,000,000 per annum. Hong Leong Asia has agreed to waive its right to be paid any fees as set out in the Amended and Restated Shareholders Agreement of November 9, 1994. In 2011, this arrangement was restructured into a separate management services agreement and consulting services agreement, with the total quantum of annual fee remaining the same at US\$1,000,000. See "Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions — Shareholder Agreement."

The Company and Yuchai entered into a supplemental agreement in 2019 and 2020, respectively, pursuant to which Yuchai paid an additional management fee of RMB 3 million to the Company respectively for the year 2019 and 2020 in respect of additional management services provided by the Company and higher human resource costs related to those services. In January 2022, the Company and Yuchai entered into a new supplemental agreement in respect of an additional management fee of RMB 3 million for the year 2021.

Remuneration and Pensions

The total fees paid to the Directors (other than Directors appointed to an executive office) for performing their services as Directors must not exceed US\$250,000 each year or such lesser amount as our Board of Directors may determine. The Directors may decide such sum to be divided among them, except that any Director holding office for part of a year shall unless otherwise agreed be entitled to any proportionate part of the remuneration. Our shareholders may by ordinary resolution increase the amount of the fees payable to the Directors. Our shareholders approved the increase in the limit of the Directors' fee from US\$250,000 to US\$490,000 for the fiscal year 2018 at our annual general meeting held on June 21, 2019 and from US\$25,000 to US\$569,013 for the fiscal year 2019 at our annual general meeting held July 17, 2020. At our annual general meeting held on July 23, 2021, our shareholders approved the increase in the limit of the Directors' fee from US\$250,000 to US\$556,229 for the fiscal year 2020. For fiscal year 2021, and subject to shareholders' approval at the annual general meeting, we will pay an annual director fee of US\$50,000 to each Director (pro-rated accordingly if a director resigns, retires or assumes the position during the year) other than the President of the Company, and an annual service fee of US\$60,000 and US\$40,000 to the Chairman and each of the members of the Audit Committee, respectively.

Our Board of Directors may grant special remuneration to any Director who, being called upon, shall render any special or extra services to or at the request of the Company. Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director and may be payable by way of a lump sum, participation in profits or as otherwise determined by our Board of Directors. For the year of 2021, our Board of Directors approved a special remuneration of US\$50,000 to be paid to one of our Directors.

Save for legally mandated contributions on behalf of our employees, our Board of Directors does not provide pensions or other benefits to any Director, officer or former Director or officer, or any of their family members or dependents.

Share Ownership

The directors and executive officers of the Company and Yuchai do not currently own any shares of Common Stock but certain executive officers have been awarded share options under our Equity Incentive Plan.

China Yuchai International Limited 2014 Equity Incentive Plan

The China Yuchai International Limited 2014 Equity Incentive Plan (the “Equity Incentive Plan”) was approved and adopted by the Company on May 10, 2014, and became effective upon approval by the Company’s shareholders on July 4, 2014. The purpose of the Equity Incentive Plan is to provide an incentive to attract, retain and motivate eligible employees of the Company by offering them an opportunity to participate in the Group’s future performance through the grant of Awards (as defined in the Equity Incentive Plan, including options, restricted stock and stock payments).

The following paragraphs describe the principal terms of the Equity Incentive Plan.

Plan Administration

The Compensation Committee has full power and authority, in its sole discretion, to administer, implement and carry out the Equity Incentive Plan, including, without limitation, (i) selecting grantees from the individuals eligible to receive Awards, the time when Awards will be granted, the number of Awards and the number of shares of common stock covered by each Award; (ii) determining the terms and conditions of each award grant; (iii) approving the forms of agreement for use under the Equity Incentive Plan; (iv) establishing, adopting, or revising any rules and regulations to administer the Equity Incentive Plan; and (v) taking any and all other action as it deems necessary or advisable for the operation or administration of the Equity Incentive Plan and the Awards thereunder.

Shares Reserved for the Equity Incentive Plan

Subject to certain adjustments set forth in the Equity Incentive Plan, the total number of our shares available for grant and issuance pursuant to the Equity Incentive Plan from time to time will be 1,800,000 shares of common stock. If any shares subject to an Award are forfeited, canceled or expire or such Award is settled for cash (in whole or in part) for any reason, such shares will, to the extent of such forfeiture, cancellation, expiration or cash settlement, again become available for grant and issuance in connection with future Awards under the Equity Incentive Plan. Under the terms of the Equity Incentive Plan, the maximum number of shares of common stock that may be subject to one or more awards to any one person during any calendar year is 300,000.

Eligibility

Subject to the conditions set forth in the Equity Incentive Plan, any person, including officers and directors, employed by the Company or any of its subsidiaries who are in positions of substantial responsibility and whose contributions are important to the successful conduct of the Group’s business are eligible to be granted Awards.

Options

The grant of share options is to be at an exercise price not less than 100% of the fair market value of the common stock subject to the option on the date the option is granted and the par value of the Common Stock. The options may vest based on performance or other criteria and, at any time after the grant of an option, the Compensation Committee may, in its sole discretion, accelerate the vesting of such option. Repricing of share options are prohibited without the approval of shareholders. The grant of restricted stock and stock payments must be at a purchase price to be established by the Compensation Committee but in any event, no less than US\$1.00 per award. The term of share options may not exceed ten years from the date of grant. The number of share options that the Company has granted to its executive officers and Yuchai’s employees is set out in the following table and as of December 31, 2021, there were 270,000 options outstanding under the Equity Incentive Plan. No further options have since been granted under the Equity Incentive Plan. The options vest in three equal installments over a three-year term and as of December 31, 2021 and February 28, 2022 all options granted have vested in the grantees.

<u>Name</u>	<u>Options Outstanding</u>	<u>Exercise Price (US\$/Share)</u>	<u>Grant Date</u>	<u>Expiration Date</u>
HOH Weng Ming	150,000	\$ 21.11	July 29, 2014	July 28, 2024
WU Qiwei	80,000	\$ 21.11	July 29, 2014	July 28, 2024
LAI Tak Chuen Kelvin	20,000	\$ 21.11	July 29, 2014	July 28, 2024
TAY Hui Boon Kelly	20,000	\$ 21.11	July 29, 2014	July 28, 2024
	<u>270,000</u>			

With Mr. Yan Ping’s retirement as Chairman of Yuchai’s Board on March 11, 2021, 200,000 share options granted to Mr. Yan Ping on July 29, 2014 were approved by Compensation Committee for termination with effect on September 11, 2021.

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Restricted Stock

The Compensation Committee is authorized to grant shares subject to various restrictions, including restrictions concerning voting rights and transferability, and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Compensation Committee. Subject to the conditions set forth in the Equity Incentive Plan, upon issuance of restricted stock, the holder shall have, unless otherwise provided by the Compensation Committee, all the rights of a shareholder with respect to said shares, subject to the restrictions in each individual award agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that, in the sole discretion of the Compensation Committee, any extraordinary or special dividends or distributions with respect to the shares shall be subject to the restrictions set forth in the Equity Incentive Plan.

Stock Payments

The Compensation Committee is authorized to make stock payments, which may, but are not required to, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable. The terms and conditions (including, without limitation, the number or value of shares) of any stock payment shall be determined by the Compensation Committee and may be based on the holder's duration of employment or service with Company, the Company's performance, individual performance or other criteria selected by the Compensation Committee, at one time or from time to time, periodically or otherwise. Unless otherwise provided by the Compensation Committee, a holder of a stock payment shall have no rights as a shareholder with respect to such stock payment until such time as the shares underlying the Award have been issued.

Non-transferability

Awards granted under our Share Incentive Plan are generally not transferable during the lifetime of the award holder.

Amendment, Suspension and Termination of the Equity Incentive Plan

The Compensation Committee or the Board of Directors of the Company may, at any time terminate, and from time to time may amend or modify the Equity Incentive Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders of the Company if (a) shareholder approval is required to enable the Equity Incentive Plan to satisfy any applicable statutory or regulatory requirements or (b) the Company, on the advice of counsel, determines that shareholder approval otherwise is necessary or desirable. No amendment, modification or termination of the Equity Incentive Plan shall in any manner adversely affect any Awards theretofore granted under the Equity Incentive Plan without the consent of the holders or the permitted transferee(s) of such Awards, subject always to applicable laws. No Awards may be granted or awarded during any period of suspension or after termination of the Equity Incentive Plan.

Duration of the Plan

The Equity Incentive Plan shall terminate on May 8, 2024 unless earlier terminated. Awards outstanding at the time of the Equity Incentive Plan's termination may continue to be exercised in accordance with their terms and shall continue to be governed by and interpreted consistent with the terms of the Equity Incentive Plan.

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Benefits

The aggregate amount of compensation paid to all directors and executive officers of the Company and Yuchai during 2021 was approximately RMB 56.0 million (US\$8.9 million).

There are no benefits to be provided to the directors of the Company or Yuchai upon their termination of employment. For more details, see also “Item 6. Directors, Senior Management and Employees — Compensation — Remuneration and Pensions.”

Employees

As of December 31, 2019, 2020 and 2021, Yuchai employed approximately, 8,852, 8,927 and 8,924 people, respectively, nationwide in China.

Yuchai provides its employees with a fixed base salary and a bonus that is determined by the employees’ performance and productivity and participates in defined contribution retirement plans as legally mandated under applicable Chinese laws. See Note 7.4 to the accompanying consolidated financial statements in Item 18 for more details. Yuchai also provides its employees meal subsidies and medical insurance, and certain employees receive further subsidies for housing. For fiscal year 2021, the total annual salary and bonus paid and payable to Yuchai’s employees was RMB 1,340.6 million (US\$212.0 million). Yuchai, on an annual basis, enters into a collective labor agreement with the union which represents all of its employees. Yuchai has not experienced any material work stoppages and considers employee relations to be good.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth certain information regarding beneficial ownership of our shares of Common Stock as of February 28, 2022 by all persons who are known to us to own 5% or more of the outstanding shares of Common Stock.

Beneficial ownership is determined in accordance with rules of the SEC, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and includes equity shares issuable pursuant to the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days. These shares are deemed to be outstanding and to be beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, all information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated, we believe that persons named in the table have sole voting and sole investment power with respect to all the equity shares shown as beneficially owned. The share numbers and percentages listed below are based on 40,858,290 shares of Common Stock outstanding as of February 28, 2022.

<u>Identity of Person or Group</u>	<u>Number</u>	<u>Percentage</u>
Hong Leong Asia Ltd ⁽¹⁾	18,270,965	44.72%
Coomber Investments Limited ⁽²⁾	7,028,151	17.20%
Shah Capital Management ⁽³⁾	3,540,793	8.67%

⁽¹⁾ Hong Leong Asia is currently the beneficial owner of and exercises control over the special share and the 18,270,965 shares of Common Stock or approximately 44.72% of the total number of shares of Common Stock held by its wholly-owned subsidiaries, HL Technology and Well Summit Investments Limited. See also “Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions — Shareholders Agreement.” Other than as described under “Item 3. Key Information — Risk Factors — We may experience a change of control as a result of sale or disposal of shares of our Common Stock by our controlling shareholders” and “Item 7. Major Shareholders And Related Party Transactions — The Special Share,” we are not aware of any arrangement which may, at a subsequent date, result in a change of control of the Company.

⁽²⁾ Information based on the Schedule 13D filed with the SEC on February 13, 2020 by Coomber, Goldman Industrial Ltd., GY Group, State-owned Assets Supervision and Administration Commission of the People’s Government of Guangxi Zhuang Autonomous Region, Beibu Gulf Industry Investment Fund Limited Partnership, Guangxi Industrial Development Co., Ltd. and the State-owned Assets Supervision and Administration Commission of the People’s Government of Yulin City, according to which each of the foregoing entities may be deemed to share voting and dispositive power with respect to the 7,028,151 shares of Common Stock held directly by Coomber.

⁽³⁾ Information based on a report on Form 13-F filed by Shah Capital Management with the SEC on January 19, 2022 for the fourth quarter ended December 31, 2021.

As of February 28, 2022, there were 25,937,303 shares of Common Stock, or 63.48% of the total number of shares of Common Stock, held of record by 12 holders with registered addresses in the United States.

Except as described below under “The Special Share”, each of our shareholders is entitled to one vote on all matters that require a vote of shareholders, and none of our shareholders has any contractual or other special voting rights.

The Special Share

The special share entitles the holder thereof to elect a majority of our Directors. In addition, no shareholders' resolution may be passed without the affirmative vote of the special share, including any resolution to amend the Memorandum of Association or our Bye-Laws. The special share is not transferable except to Hong Leong Asia, Hong Leong China or any of its affiliates. In 1994, we issued the special share to Diesel Machinery, a holding company of the Company then controlled by Hong Leong China. During 2002, following the decision of the shareholders of Diesel Machinery to dissolve Diesel Machinery, Diesel Machinery redeemed all of the redeemable stock issued by it to its shareholders. According to the Diesel Machinery shareholders, Diesel Machinery transferred all of the shares of our Common Stock held by it to its shareholders, which included Hong Leong China and its wholly-owned subsidiaries.

Because Coomber, a wholly-owned subsidiary of China Everbright Holdings, was the shareholder of Diesel Machinery which gave notice of the dissolution of Diesel Machinery, the special share was transferred by Diesel Machinery to HL Technology, an affiliate of Hong Leong Asia, pursuant to the terms of the Diesel Machinery Shareholders Agreement described below.

Our Bye-Laws provide that the special share shall cease to carry any rights in the event that, if Hong Leong Asia and its affiliates own the special share, Hong Leong Asia and its affiliates cease to own, directly or indirectly, at least 7,290,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of the shares of Common Stock), or if China Everbright Holdings and its affiliates own the special share, China Everbright Holdings and its affiliates cease to own, directly or indirectly, at least 6,570,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of the shares of Common Stock). The Bye-Laws also provide for circumstances in which Diesel Machinery holds the special share. However, Diesel Machinery was dissolved in 2003. HL Technology, an affiliate of Hong Leong Asia, holds the special share in addition to 9,520,251 shares of Common Stock, which is greater than the number stipulated in the provisions of our Bye-Laws set forth above.

Related Party Transactions

Shareholders Agreement

Hong Leong China, China Everbright Holdings, Cathay Investment Fund Limited, or Cathay, GS Capital Partners L.P., or GSCP, 14 shareholders who initially invested in us through Sun Yuan BVI, or the Sun Yuan Shareholders, and the Company in 1994 entered into an amended and restated Shareholders Agreement, or the Shareholders Agreement, which provides for certain matters relating to the management of our company and Yuchai and the ownership of our Common Stock. The Shareholders Agreement provides that our Board of Directors will consist of eleven directors, the controlling shareholder (as described below) will be entitled to designate six directors, the major shareholder (as described below) will be entitled to designate two directors, and each of Cathay and GSCP will be entitled to designate one director and the chief executive officer of Yuchai will initially be the other director. The Shareholders Agreement also provides that the controlling shareholder will be entitled to designate five of the nine Yuchai directors that we are entitled to designate, the major shareholder will be entitled to designate two such directors and each of Cathay and GSCP will be entitled to designate one such director. Under the Shareholders Agreement, the nine Yuchai directors designated by us will vote as a block in accordance with the vote of the majority of such nine directors. The Shareholders Agreement provides that the controlling shareholder will be the person holding the special share, provided that at all times the controlling shareholder will be either Hong Leong Asia or China Everbright Holdings, and the other will be the major shareholder. Since our initial public offering in 1994, Hong Leong Asia has been the controlling shareholder and China Everbright Holdings has been the major shareholder. However, in October 2002, China Everbright Holdings sold all of its shares in Coomber to Goldman in October 2002 and is no longer our major shareholder. The Shareholder Agreement provides that if any shareholder (other than the controlling shareholder) ceases to own at least 4% of our Common Stock, such shareholder will no longer be entitled to designate any directors. Accordingly, China Everbright Holdings no longer has director designation rights. The Shareholders Agreement also provides that, so long as Hong Leong Asia is the controlling shareholder, Yuchai or we will pay Hong Leong Asia an annual management fee of not less than US\$500,000 for management services provided by Hong Leong Asia, including the services of our president and chief financial officer. With effect from January 2008, further to agreements entered into between the Company and Yuchai, Yuchai has paid to the Company, instead of Hong Leong Asia, consultancy and management services fee of US\$1,000,000 per annum. Hong Leong Asia has agreed to waive its right to be paid any fees as set out in the Shareholders Agreement. The Shareholders Agreement will terminate upon the occurrence of an event resulting in the special share ceasing to carry any rights.

In addition to the Shareholders Agreement, Hong Leong Asia, China Everbright Holdings and Diesel Machinery had entered into a Subscription and Shareholders Agreement on November 9, 1994, as amended on January 21, 2002 and May 17, 2002, or the Diesel Machinery Shareholders Agreement, which provided for certain matters relating to the management of Diesel Machinery, the Company, Yuchai and the ownership of Diesel Machinery stock. The Diesel Machinery Shareholders Agreement provided that Hong Leong Asia would control Diesel Machinery, provided, however, that if Hong Leong Asia and its affiliates ceased to own directly or through Diesel Machinery at least 7,290,000 shares of Common Stock when China Everbright Holdings and its affiliates own directly or through Diesel Machinery at least 6,570,000 shares of Common Stock, China Everbright Holdings would control Diesel Machinery. The Diesel Machinery Shareholders Agreement provided that all rights of the special share held by Diesel Machinery would be exercised as directed by the shareholder that controls Diesel Machinery. With the dissolution of Diesel Machinery and the sale by China Everbright Holdings of all of its shares in Coomber to Goldman in October 2002, the Diesel Machinery Shareholders Agreement no longer directly affects us.

Registration Rights Agreement

Pursuant to a registration rights agreement, or the Registration Rights Agreement, we have granted two “demand” registration rights to each of Hong Leong China, China Everbright Holdings, Cathay, GSCP and the Sun Yuan Shareholders, or collectively the Selling Stockholders, requiring us, subject to certain conditions, to use our best efforts to prepare and file a registration statement on behalf of such shareholders under the Securities Act, and to use our best efforts to qualify the shares for offer and sale under any applicable the U.S. state securities laws. Expenses incurred in connection with one demand registration for each such shareholder will be borne by us, and we and Yuchai will be required to indemnify the underwriters in connection with any demand registration. The Registration Rights Agreement also grants each such shareholder certain “piggyback” registration rights entitling each shareholder to sell Common Stock in any registered offerings of our equity securities, for our account or on behalf of our security holders. China Everbright Holdings, Cathay, GSCP and the Sun Yuan Shareholders are no longer our shareholders. In March 2004, HL Technology and Coomber each registered shares for offer and sale from time to time on a shelf registration statement on Form F-3 which we filed on their behalf pursuant to a registration rights agreement. The shelf registration statement was rendered ineffective as we were not eligible to use the Form F-3 as a result of the delay in our filing of our previous periodic reports required under the Exchange Act. However, we are now compliant with our reporting obligations as required under the Securities Exchange Act of 1934 and are eligible to use the Form F-3. We have not received any instructions from either HL Technology or Coomber pursuant to the registration rights agreement, to take any further action in relation to the shelf registration statement.

Reorganization Agreement and Cooperation Agreement

On April 7, 2005, we entered into the Reorganization Agreement with Yuchai and Coomber, which is intended to be in furtherance of the terms of the July 2003 Agreement. On November 30, 2006, certain provisions of the Reorganization Agreement were amended, including extending the implementation deadline to June 30, 2007.

The Reorganization Agreement was scheduled to terminate on June 30, 2007. On June 30, 2007, we entered into the Cooperation Agreement with Yuchai, Coomber and the GY Group, which is intended to be in furtherance of certain terms of the Reorganization Agreement, as amended. The Cooperation Agreement amends certain terms of the Reorganization Agreement, as amended, among CYI, Yuchai and Coomber, and as so amended, incorporates certain terms of the Reorganization Agreement. See “Item 4. Information on the Company — History and Development — Cooperation Agreement.”

Other Transactions

We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and we have a team working full-time at Yuchai’s principal manufacturing facilities in Yulin city. In addition, the President, Chief Financial Officer and a manager proficient in Section 404 of Sarbanes-Oxley Act of 2002, or SOX, usually travel monthly, for as much as up to two weeks, at a time to Yuchai to actively participate in Yuchai’s operations and decision-making process. During fiscal year 2019, pursuant to a management services agreement and a consulting services agreement, we charged a total of US\$1.0 million to Yuchai for these services. In consideration of the increase of management services as well as higher human resource costs incurred to provide services to Yuchai, the Company entered into supplemental agreements with Yuchai in December 2019 and May 2021, for an additional management fee of RMB 3 million paid by Yuchai to the Company for the fiscal years 2019 and 2020, respectively. The Company and Yuchai have executed a new supplemental agreement in January 2022 in respect of an additional management fee for the year 2021.

During fiscal year 2021, certain affiliates of Hong Leong Asia charged us RMB 7.2 million (US\$1.1 million) for certain general and administrative expenses such as corporate secretarial services, office rental, professional and consultancy fees and miscellaneous office expenses.

During fiscal year 2021, Yuchai entered into agreements with the GY Group (including its subsidiaries and affiliates) and with Yuchai’s associates and joint ventures for, among other things, sales of engines and materials to the GY Group, purchase of materials, supplies and engines from the GY Group, and other business relating to hospitality, lease of assets, property management services, and delivery, storage, distribution and handling services, etc. For further details on our business transactions with related parties, please see Note 28 to our consolidated financial statements in Item 18.

During fiscal year 2019, Yuchai entered into a trademark license agreement with the GY Group on April 25, 2019 (“Trademark License Agreement”) under which the GY Group granted Yuchai an exclusive and perpetual license to use the thirty trademarks listed therein for a one-time, ten-year usage fee of RMB 169.8 million. The Trademark License Agreement further permits Yuchai to continue using the licensed trademarks free-of-charge after the expiry of the ten-year period.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See “Item 18. Financial Statements.”

Legal Proceedings

Other than as set forth below, neither we nor any of our consolidated subsidiaries is currently involved in any material legal or arbitration proceedings that we believe may have, or have had in the recent past, significant effects on our financial position or profitability.

Proceedings with Yuchai

We have previously encountered difficulties in obtaining the cooperation of the GY Group and Mr. Wang Jianming in the daily management and operation of Yuchai. The GY Group is a minority shareholder of Yuchai and is majority-owned by the Guangxi Zhuang Autonomous Region. Until December 3, 2005, Mr. Wang was the Chairman, legal representative and Chief Executive Officer of Yuchai, as well as the Vice-Chairman and legal representative of the GY Group.

Dividends

See “Item 3. Key Information — Dividends.”

In response to earlier difficulties with respect to corporate governance measures and certain dividends declared by Yuchai, we initiated legal and arbitration proceedings in New York, London and Singapore against Yuchai, Mr. Wang and other related parties in May 2003. We subsequently discontinued these proceedings as a result of the execution of the July 2003 Agreement. Among other things, the July 2003 Agreement led to the resolution at that time of previous disagreements with respect to the payment of dividends by Yuchai to us and the re-appointment of Mr. Wang Jianming as Chief Executive Officer and Chairman of the Board of Directors of Yuchai in September 2003. We and Yuchai also agreed to work together to implement corporate governance procedures and to promote plans to enhance shareholder value. However, from time to time, we have continued to face difficulties in obtaining the cooperation of the Chinese shareholders of Yuchai in the daily management and operation of Yuchai and to fully exercise our controlling interest in Yuchai. Following the execution of the July 2003 Agreement, disagreements among the parties continued to recur. For example, representatives of the Chinese shareholders of Yuchai alleged that resolutions passed by our six wholly-owned subsidiaries at Yuchai’s shareholders’ meeting in December 2004 were invalid, allegations with which we disagreed.

In April 2005, we, Yuchai and Coomber agreed on steps relating to the adoption of corporate governance practices at Yuchai and a broad framework for the restructuring of our ownership of Yuchai, and entered into the Reorganization Agreement. The Reorganization Agreement is intended to be in furtherance of the July 2003 Agreement. In December 2005 and November 2006, the parties amended certain provisions of the Reorganization Agreement, including extending the implementation deadline to June 30, 2007. In June 2007, we, Yuchai, Coomber and the GY Group entered into the Cooperation Agreement which amends certain terms of the Reorganization Agreement. Pursuant to the amendments to the Reorganization Agreement, the Company has agreed that the restructuring and spin-off of Yuchai will not be effected, and, recognizing the understandings that have been reached between the Company and the GY Group to jointly undertake efforts to expand the business of Yuchai, the Company will not seek to recover the anti-dilution fee of US\$20 million from Yuchai. Although the parties to the Cooperation Agreement are expected to work towards its implementation as expeditiously as possible, no assurance can be given as to when the transactions contemplated therein will be fully consummated, or that implementation of the Cooperation Agreement will effectively resolve all of the difficulties faced by us with respect to its investment in Yuchai.

ITEM 9. THE OFFER AND LISTING

Since December 16, 1994, the Common Stock has been listed and traded on the NYSE under the symbol “CYD.” The Common Stock is not listed on any other exchanges within or outside the United States.

ITEM 10. ADDITIONAL INFORMATION

Our company’s objects are to perform all the functions of a holding company and to coordinate the policy and administration of any subsidiary company. See paragraphs 6 and 7 of our company’s Memorandum of Association for further information on the objects and powers of our company. Please see Exhibit 1.1 to this Annual Report.

Memorandum of Association and Bye-Laws

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

<u>Standard for U.S. Domestic Listed Companies</u>	<u>China Yuchai International Limited’s Practice</u>
Director Independence	
<ul style="list-style-type: none">A majority of the board must consist of independent directors.	<ul style="list-style-type: none">Three of our nine directors, Messrs. Xie Tao, Neo Poh Kiat and Ho Raymond Chi-Keung are independent within the meaning of the NYSE standards.
<p>Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over US\$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company’s independent auditor are also not independent.</p>	
<ul style="list-style-type: none">The non-management directors of each company must meet at regularly scheduled executive sessions without management.	<ul style="list-style-type: none">As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.

Audit Committee

- 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.
- 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.
- The audit committee must have a written charter that addresses the committee's purpose and responsibilities.

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.

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 meets the requirements of Rule 10A-3 under the Exchange Act..
- Our Audit Committee currently consists of three members, all of whom meet the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.
- Our Audit Committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of U.S. companies.
- Our Audit Committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of U.S. companies.
- Our Audit Committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, the Company's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.

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Standard for U.S. Domestic Listed Companies

- 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.
- Each listed company must have an internal audit function.

Compensation Committee

- Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing 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.

Nominating/Corporate Governance Committee

- Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.
- 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.

China Yuchai International Limited's Practice

- The Board of Directors has identified Mr. Xie Tao as our Audit Committee Financial Expert.
- We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, reviews significant audit issues and monitors corrective actions taken by management.
- Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
- 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.
- 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.

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Standard for U.S. Domestic Listed Companies

Equity-Compensation Plans

- Shareholders must be given the opportunity to vote on all equity—compensation plans and material revisions thereto, with limited exceptions.

Corporate Governance Guidelines

- Listed companies must adopt and disclose corporate governance guidelines.

Code of Business Conduct and Ethics

- All listed companies, U.S. 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.

Directors

Director Interests and Voting

A Director of the Company cannot vote or be counted in the quorum with regard to any contract or arrangement or any other proposal in which he has any interest or in respect of which he has any duty which conflicts with his duty to the Company. The restriction from voting and being counted in the quorum does not apply if the only interest the Director has is included in the following list:

- (a) a resolution regarding granting any security or indemnity for any money lent or obligation incurred by such Director at the request, or for the benefit, of the Company or any of our subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary);
- (b) a resolution regarding granting any security or indemnity to any third party for a debt or obligation which is owed by the Company or any of our subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary) to the third party, for which such Director has assumed responsibility in whole or in part under a guarantee or indemnity;
- (c) a resolution about an offer of shares, debentures or other securities of the Company or any of its subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary) for subscription or purchase in which such Director is to be a participant in the underwriting or sub-underwriting of the offer;
- (d) a resolution about any proposal involving any other company in which such Director is interested, whether directly or indirectly and whether as an officer or shareholder or otherwise, provided that such Director is not the holder of, or directly or indirectly beneficially interested in, 5% or more of (i) any class of the equity share capital of such company or in any third company through which such Director's interest is derived or (ii) the voting rights in that company;
- (e) any contract, arrangement or proposal for the benefit of our employees under which such Director benefits in a similar manner as the employees and does not receive any privileges or advantages not provided to the employees; or
- (f) any proposal in which such Director is interested in the same manner as other holders of our shares or our debentures or our other securities or any of our subsidiaries by virtue only of such Director's interest in our shares or our debentures or our other securities or any of our subsidiaries.

If our Board of Directors is considering proposals about appointing two or more Directors to offices or employments with the Company or any company in which we are interested, each such Director (if not disqualified from voting under proviso to item (d) above) can vote and be included in the quorum for each resolution, except the one concerning such Director.

Borrowing Powers

Our Board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures and other securities.

China Yuchai International Limited's Practice

- Our Equity Incentive Plan was approved by our shareholders in 2014.

- 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.

- 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.

Qualification of Directors

No Director is required to hold any shares of the Company.

Rights of Holders of shares of Common Stock

The holders of shares of Common Stock shall:

- be entitled, on a show of hands, to one vote and, on a poll, to one vote per share;
- be entitled to such dividends as the Board of Directors of the Company may from time to time declare;
- in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of the reorganization or otherwise or upon any distribution of capital, be entitled to a return of the amount paid up on the Common Stock and thereafter to the surplus assets of the Company; and
- generally, be entitled to enjoy all the rights attaching to shares.

All unclaimed dividends or distributions out of contributed surplus account may be invested or otherwise made use of by the Board of Directors of the Company for the benefit of the Company until claimed and the payment of any such dividend or distribution into a separate account or the investment of such dividend shall not constitute the Company a trustee in respect thereof. No dividend or distribution shall bear interest against the Company. Any dividend or distribution which has remained unclaimed for a period of 12 years from the due date for payment thereof shall at the expiration of that period be forfeited and shall belong to the Company absolutely.

Rights of Holder of the Special Share

The holder of the special share shall be entitled to the following rights:

- to elect six Directors of the Company and to remove Directors so appointed; and
- no shareholder resolution, whether ordinary or special resolution, may be passed without the affirmative vote of the holder of the special share.

The holder of the Special Share shall not be entitled to any other rights or to any dividends and in the event of a winding up or dissolution of the Company, the holder of the special share shall be entitled only to a return of the amount paid up on the special share.

The special share is not transferable except to Hong Leong Asia and its affiliates or to China Everbright Holdings and its affiliates. The special share shall cease to carry any rights in the event that, if Hong Leong Asia and its affiliates own the special share, Hong Leong Asia and its affiliates cease to own, directly or indirectly, at least 7,290,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of shares of Common Stock), or if China Everbright Holdings and its affiliates own the special share, China Everbright Holdings and its affiliates cease to own, directly or indirectly, at least 6,570,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of shares of Common Stock). For more details, see “Item 7. Major Shareholders and Related Party Transactions — The Special Share.”

Modification of Shareholders’ Rights

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied, modified or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of an ordinary resolution passed at a separate general meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Annual General and Special General Meetings

We must hold an annual general meeting each year. Our Directors decide where and when it will be held. Not more than fifteen months may elapse between the date of one annual general meeting and the next. At least 14 clear days’ written notice must be given for every annual general meeting and for every special general meeting. The notice for any annual general meeting must state the date, place and time at which the meeting is to be held, and the business to be conducted at the meeting, including, if applicable, any election of Directors. The notice for any special general meeting must state the time, place and the general nature of the business to be considered at the meeting and shall state that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him. In the case of a meeting convened for passing a special resolution, the notice shall specify the intention to propose the resolution as a special resolution.

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Shareholders holding not less than one-tenth in value of the paid up share capital of the Company and having the right to attend and vote at general meetings of the Company shall have the right, by written request to the Chairman or President (as applicable), Deputy Chairman or Vice President (as applicable) or Secretary of the Company, to require that a special general meeting be convened by the Directors for the transaction of any business specified in the request. Such meeting shall be held within two months after the request has been made. If within 21 days of such deposit of the request, the Board fails to convene the meeting, such shareholders may convene the meeting themselves in accordance with Section 74(3) of the Companies Act of 1981 of Bermuda.

Limitations on Rights to Own Securities

There are no limitations under Bermuda law or our Memorandum of Association and Bye-Laws on the rights of non-Bermuda owners of shares of the Company to hold or vote their shares.

We are exempt from the laws of Bermuda which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company we may not participate in certain business transactions, including (i) the acquisition or holding of land in Bermuda (except that required for its business held by way of lease or tenancy for a term not exceeding 50 years or, with the consent of the Minister of Finance of Bermuda, land by way of lease or tenancy for a term not exceeding 21 years in order to provide accommodation or recreational facilities for its employees); (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of 50,000 Bermuda dollars without the prior consent of the Minister of Finance of Bermuda; (iii) the acquisition of any bonds or debentures secured by any land in Bermuda other than those issued by the Government of Bermuda or a public authority; or (iv) the carrying on of business of any kind or type whatsoever in Bermuda either alone or in partnership or otherwise except, *inter alia*, carrying on business with persons outside Bermuda, in furtherance of the business of the Company carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

In accordance with our Bye-Laws, share certificates are only issued to members of the Company (i.e., persons registered in the register of members as holders of shares in the Company). We are not bound to investigate or incur any responsibility in respect of the proper administration or execution of any trust to which any of our shares are subject. We will take no notice of any trust applicable to any of its shares whether or not it had notice of such trust.

Exchange Controls

Bermuda Exchange Controls

We have been designated as a non-resident for exchange control purposes by the Bermuda Monetary Authority. We have received the permission of the Bermuda Monetary Authority under the Exchange Control Act of 1972 and regulations thereunder for the transfer of shares of common stock to and between persons regarded as resident outside Bermuda for exchange control purposes and the issue of shares within the existing authorized capital of the Company to such persons for so long as such shares are listed on the NYSE. The Bermuda Monetary Authority has also granted to all Bermuda companies with voting shares listed on an appointed stock exchange (as defined in the Companies Act 1981 of Bermuda), a general permission for the issue and subsequent transfer of any securities of such companies from and to a non-resident of Bermuda. The NYSE is an appointed stock exchange under the Companies Act 1981 of Bermuda. Issues and transfers of shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act of 1972.

Because we have been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on our ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the shares of common stock, other than in respect of local Bermuda currency.

China Exchange Controls

Effective from January 1, 1994, a unitary exchange rate system for the conversion between Renminbi and the foreign currencies was introduced in China, and accordingly, the China Foreign Exchange Trading System, or CFETS, inter-bank foreign exchange market was established. Under the unitary foreign exchange system, PBOC sets daily exchange rates, or the PBOC Rates, for conversion of Renminbi into US dollar and other currencies based on the CFETS interbank market rates, and the Bank of China and other authorized banks may engage in foreign exchange transactions at rates that vary within a prescribed range above or below PBOC Rates.

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Yuchai, as an FIE, is permitted to retain its foreign currency earnings and maintain foreign currency accounts at designated foreign exchange banks. However, there can be no assurance that the current authorizations for FIEs to retain their foreign exchange to satisfy foreign exchange liabilities in the future will not be limited or eliminated or that Yuchai will be able to obtain sufficient foreign exchange to satisfy their foreign exchange requirements. Foreign exchange transactions under the capital account and the foreign debt account continue to be subject to limitations and require registrations with the reviews from the designated foreign exchange banks and SAFE, which could affect the ability of Yuchai to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Company.

In the event of shortages of foreign currencies, Yuchai may be unable to convert sufficient Renminbi into foreign currency to meet its foreign currency obligations or to pay dividends in foreign currency. Yuchai requires foreign currency to purchase a substantial portion of the manufacturing equipment required for the planned expansion of its manufacturing facilities and to meet foreign currency-denominated debt payment obligations. Yuchai will also require foreign currency for payment of its imported engine components.

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the US dollar again, though there have been periods when the US dollar has appreciated against the Renminbi as well. From December 31, 2017 to December 31, 2021, the Renminbi appreciated about 2.1% against the US dollar. From December 31, 2020 to February 28, 2022, the Renminbi appreciated about 3.3% against the US dollar. It is difficult to predict how market forces or government policy may impact the exchange rate between the Renminbi and the US dollar in the future.

On April 28, 2013, SAFE issued the Administrative Measures for Foreign Debt Registration, which took effect on May 13, 2013 and set forth the procedures for the registration of foreign debt borrowings.

On February 13, 2015, SAFE issued the Notice on Further Simplifying and Improving the Foreign Exchange Administration Policies on Direct Investments (the “Notice 13”), which shall become effective on June 1, 2015. According to Notice 13, the banks are designated to directly review and deal with the foreign exchange registration for foreign direct investment in China Mainland and outbound direct investment. SAFE shall supervise the registration activities indirectly through banks. Certain operating procedures for direct investments are also simplified.

On March 30, 2015, SAFE issued the Notice on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (the “Notice 19”), which took effect on June 1, 2015. According to the Notice 19, an ordinary FIE such as Yuchai, may make the equity investment by transferring the Renminbi converted from capital contribution in foreign currency (“Converted Renminbi”) to the Account for Foreign Exchange Settlement Pending Payment opened by the invested enterprise.

On June 9, 2016, SAFE issued the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement (“Notice 16”), which became effective on the same day. Pursuant to Notice 16, domestic institutions (FIEs included) may voluntarily settle 100% (the percentage is subject to adjustment by SAFE) of their foreign exchange earnings under capital account (including capitals contribution in foreign currency, foreign debts, etc.) to the Account for Foreign Exchange Settlement Pending Payment based on actual needs under the permitted business scope. Meanwhile, Notice 16 further loosens up the restrictions imposed on the use of Converted Renminbi. According to Notice 16, the Converted Renminbi can be used for providing loans to affiliated enterprises of FIEs.

On January 12, 2017, the PBOC issued the Notice of People’s Bank of China on Matters Concerning Macro-Prudential Management on All-round Cross-border Financing (“Notice 9”), which took effect on the same day, and, according to Notice 9, the domestic entities (other than FIEs) can borrow foreign debts without the pre-approval of SAFE as well as the quota for foreign debts of domestic entities shall be calculated by reference to the annual net asset, outstanding foreign debts, and the other factors.

On January 26, 2017, SAFE promulgated the Notice of State Administration of Foreign Exchange on Improving the Inspection of Authenticity and Compliance to Further Promote Foreign Exchange Control (“Notice 3”), which became effective on the same day. The principle of Notice 3 is to encourage capital inflow. Under Notice 3, the debtor may directly or indirectly repatriate the funds under guarantee for use domestically by way of domestic borrowing or equity investment, or by other means. Meanwhile, Notice 3 emphasizes on the policy of profit remittance of FIEs. To process outbound remittance of profits in an amount equivalent to or above USD 50,000 for an FIE, the bank shall examine several documents to assure the authenticity of the profit distribution. An FIE shall use the profit to first make up the losses suffered in the previous years prior to remitting the profits overseas.

On October 23, 2019, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which canceled the restriction on the domestic equity investment by non-investment foreign-funded enterprises with their capital funds. Subject to the requirements as set forth in the Foreign Investment Negative List and the authenticity and compliance with the regulations of domestic investment projects, as well as other requirements regulating foreign investment, non-investment foreign-funded enterprises now are allowed to lawfully make domestic equity investments by using their capital.

On April 10, 2020, the SAFE promulgated the Notice by the State Administration of Foreign Exchange of Optimizing Foreign Exchange Administration to Support Foreign Business Development, which further clarified that eligible enterprises are allowed to use revenues under their capital accounts, such as capital funds and foreign debts, for payment in China without providing banks with materials to certify the authenticity of the transaction-by-transaction basis in advance, provided that such funds shall be used in compliance with the laws and regulations regarding the use for revenues under the capital accounts.

Taxation

Bermuda Taxation

There is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by shareholders of the Company other than by shareholders ordinarily resident in Bermuda. Neither the Company nor its shareholders (other than shareholders ordinarily resident in Bermuda) are subject to stamp or other similar duty on the issue, transfer or redemption of Common Stock. The Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, the imposition of such tax shall not be applicable to the Company or to any of its operations, shares, debentures or other obligations of the Company, until March 31, 2035. This assurance does not, however, prevent the imposition of any such tax or duty on such persons as are ordinarily resident in Bermuda and holding such shares, debentures or obligations of the Company or on land in Bermuda leased or let to the Company. As an exempted company, the Company is required to pay a registration fee in Bermuda based upon its authorized share capital and the premium on the issue of its shares, at rates calculated on a sliding scale not exceeding US\$32,676 per annum.

Singapore Taxation

Dividends or Other Distributions with Respect to Ordinary Shares

Under the one-tier corporate tax system which currently applies to all Singapore tax resident companies, tax on corporate profits is final, and dividends paid by a Singapore tax resident company are not subject to withholding tax and will be tax exempt in the hands of a shareholder, whether or not the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident.

Capital Gains upon Disposition of Ordinary Shares

Under current Singapore tax laws, there is no tax on capital gains. There are no specific laws or regulations which deal with the characterization of whether a gain is income or capital in nature. Gains arising from the disposal of our ordinary shares may be construed to be of an income nature and subject to Singapore income tax, if they arise from activities which the Inland Revenue Authority of Singapore regards as the carrying on of a trade or business in Singapore. However, under Singapore tax laws, any gains derived by a divesting company from its disposal of ordinary shares in an investee company between June 1, 2012 and May 31, 2022 are generally not taxable if immediately prior to the date of the relevant disposal, the investing company has held at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months (“safe harbor rule”). In 2020, under the Singapore Budget 2020, the safe harbor rule was extended to beyond its current sunset of May 31, 2022. The extended safe harbor end-date of December 31, 2027 has been formally legislated.

Goods and Services Tax

The issue or transfer of ownership of our ordinary shares should be exempt from Singapore Goods and Services Tax, or GST. Hence, the holders would not incur any GST on the subscription or subsequent transfer of the shares.

People’s Republic of China Taxation

The following discussion summarizes the taxes applicable to the Company’s investment in Yuchai and applicable to Yuchai under the Chinese law.

Taxation of Dividends from Yuchai

In 2007, the PRC National People's Congress adopted a new tax law, China Unified Enterprise Income Tax Law (the "CIT Law"), which became effective on January 1, 2008 and was amended by the Standing Committee of the National People's Congress on December 29, 2018. The State Council adopted the related implementation rules on December 6, 2007 which was amended on April 23, 2019. In accordance with the CIT Law and its implementation rules, dividends derived from the revenues accumulated from January 1, 2008 and are paid by PRC companies to non-resident enterprises are generally subject to a PRC withholding tax levied at a rate of 10% unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. Dividends paid by PRC companies to resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose "de facto management body" is located in the PRC, are not subject to any PRC withholding tax, unless the dividends are derived from the publicly traded shares which have not been held continuously by the resident enterprises for twelve months.

On February 20, 2009, the State Administration of Taxation promulgated the Notice on Relevant Issues of Implementing Dividend Clauses under Tax Treaties, or the Notice. According to the Notice, the transaction or arrangement, the major purpose for which is to obtain preferential tax treatment, shall not justify the application of preferential treatment stipulated in dividend clauses under tax treaties. Should the tax payer improperly enjoy the treatment under tax treaties as a result of such transaction or arrangement, the tax authorities in charge shall have the right to adjust. We have recognized 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.

Taxation of Disposition of Yuchai Shares

In the event the Company, through its subsidiaries, transfers any of its current holding of the Yuchai Shares, the amount received in excess of its original capital contribution would be subject to Chinese withholding tax at a rate of 10%.

In the event that Yuchai is liquidated, the portion of the balance of its net assets or remaining property, after deducting undistributed profits, various funds and liquidation expenses, that exceeds Yuchai's paid-in capital would be subject to withholding tax at a rate of 10%.

On February 3, 2015, the Chinese State Administration of Taxation issued the Circular on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises ("Circular 7"), which became effective on the same date.

On October 17, 2017, the Chinese State Administration of Taxation issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (the "Announcement 37"), certain provision in repealed and Subsection 2 of Section 8 of Circular 7 was repealed.

Pursuant to the Announcement 37 and the Circular 7, the parties involved in the indirect transfer of Chinese taxable properties and the Chinese resident enterprises whose equity is transferred indirectly may report the equity transfer matters to the competent tax authority and shall provide certain documents and materials including but not limited to, equity transfer contract or agreement, enterprise's equity structure prior to and after the equity transfer, the financial and accounting statements in the previous two years of the enterprises abroad and their subordinate enterprises who directly or indirectly hold Chinese taxable properties. The competent tax authority may also require the parties involved in and planning for the indirect transfer of Chinese taxable properties and the Chinese resident enterprises whose equity is transferred indirectly to provide the aforementioned materials and other relevant materials. Where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any justifiable business purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise.

Income Tax

In 2007, the National People's Congress approved and promulgated the CIT Law, which became effective from January 1, 2008 and was further amended on December 29, 2018. Under the CIT Law, foreign invested enterprises and domestic companies are subject to a uniform corporate tax rate of 25% but Yuchai may continue to enjoy the reduced corporate tax rate of 15% if it qualifies under the Western Development Tax Incentive Scheme or the High Technology Incentive Scheme.

- The Western Development Incentive Scheme was first introduced at 2001 to encourage investment in the Western region of China. Companies operating in the Western region who fulfill certain criteria and upon approval enjoy a reduced corporate tax rate of 15%. This scheme was first applicable from 2001 to 2010. In 2011, the scheme was extended to 2020, and further extended to December 2030 with effective from January 1, 2021. In August 2014, the catalogue of qualifying industries for the Western Development Incentive Scheme was published and the catalogue for 2020 became effective on March 1, 2021. As an auto parts and accessories manufacturing is one of the qualifying industries, Yuchai filed its corporate tax returns under this scheme from 2008 to 2014.

- The High Technology Incentive was introduced at 2008. Companies that are high technology companies who must fulfill certain criteria and upon approval enjoy a reduced corporate tax rate of 15%. The reduced corporate tax rate took effect from January 1, 2008. Yuchai has applied to tax authorities to qualify under this scheme every 3 years since 2011 and was certified as a high technology company with effect from 2011 to 2022. Yuchai filed its corporate tax returns under the High Technology Incentive Scheme from 2015 to 2020 and will file its corporate tax return under this scheme for 2021 in mid-2022. Yuchai will submit its application renewal for qualification of high technology company in 2022.

The China tax bureau periodically conduct tax examinations. Any adverse findings in tax examinations or change in the tax legislation in China could have adverse impact on our consolidated financial conditions or results of operations. Furthermore, pursuant to the CIT Law, if an enterprise incorporated outside the PRC has its “de facto management organization” located within the PRC in accordance with the CIT, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on their worldwide income. The Implementation Rules specify that a “de facto management organization” means an organization that exercises material and full management and control over matters including the enterprise’s production and operations, personnel, finance and property. Although the Implementation Rules provide a definition of “de facto management organization”, such definition has not been tested and there remains uncertainty as to when a non-PRC enterprise’s “de facto management organization” is considered to be located in the PRC. If we or any of our subsidiaries registered outside China are treated as “China tax resident enterprise” under the CIT Law, our income tax expenses may increase and our profitability could be impacted.

Withholding Tax

On October 17, 2017, the Chinese State Administration of Taxation issued the Announcement 37 (as defined above), which became effective on December 1, 2017 and was further amended on June 15, 2018 pursuant to the Announcement of the State Administration of Taxation on Amending Certain Taxation Regulatory Documents.

In accordance with the CIT Law and the Announcement 37, if a non-resident enterprise obtains the income originating from the PRC, or the taxable income, including equity investment income such as dividend and bonus, interest, rental and royalty income, income from property transfer and other income, the payable enterprise income tax on the taxable income shall be withheld at the source by the enterprise or individual who is directly obligated to make relevant payment to the non-resident enterprise under relevant laws or contracts, or the withholding agent.

The withholding agent shall declare and pay the withheld tax to the competent tax authority in the place where such withholding agent is located within 7 days from the date of occurrence of the withholding obligation. Where the income obtained by the withholding agent and required to be withheld at source is in the form of dividends, extra dividends or any other equity investment gains, the date of occurrence of the obligation for withholding relevant payable tax is the date of actual payment of the dividends, extra dividends or other equity investment gains. Where the non-resident enterprise receives in installments the income subject to withholding of tax at the source from the same transfer of property, the amount received thereby in installments can be deemed as the recovered cost of the property invested previously and the withholding tax shall be calculated and paid after the recovery of the cost in full.

The withholding agent shall complete the Form of Report on Withholding of Enterprise Income Tax of the People’s Republic of China in declaration and payment of the tax required to be withheld. The withholding agent may submit relevant declaration materials before declaration and payment of the tax required to be withheld and such materials shall not be submitted repetitively in declaration.

In the event that a non-resident enterprise fails to file and pay the withheld tax in the manner or within the timeframe required, it will be ordered by the tax authority to pay the withhold tax within a limited period of time.

Value-Added Tax

In addition to Chinese income tax, Yuchai is subject to valued added tax, or the VAT. With effect from November 19, 2017, the amended Value-Added Tax Provisional Regulations require all tax payers engaging in sales of goods, provision of processing services, repairs and replacement services, sales of services, intangible assets or real property, or importation of goods within the territory of the PRC to pay VAT.

On March 28, 2018, the Standing Committee Meeting of State Council confirmed a comprehensive set of measures to continue VAT reform in China. Pursuant to those measures, the VAT rate for manufacturing industry and other industries was reduced from 17% to 16%, and the VAT rate for transportation, construction, basic telecommunications service industries and agricultural goods was reduced from 11% to 10%. The Ministry of Finance and the State Administration of Taxation then promulgated the Notice on Adjusting Value-Added Tax Rate on April 4, 2018. The reform policy of the State Council has been restated and specified that all the sectors subject to 17% and 11% VAT rates would be entitled to the newly reduced rates of 16% and 10%, respectively, from May 1, 2018.

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On March 5, 2019, Premier Li Keqiang delivered the Government Work Report, according to which the VAT tax rates in China was further reduced. On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs promulgated the Announcement on Policies regarding Deepening the Reform of Value-Added Taxation, which came into force on April 1, 2019, in which the authorities restated that all the sectors subject to 16% and 10% VAT rates is entitled to the newly reduced rates of 13% and 9%, respectively.

There were no further changes to the value-added tax rates in 2020 and 2021 applicable to Yuchai.

United States Federal Income Taxation

This section describes the material United States federal income tax consequences of owning and disposing of Common Stock. It applies to a US Holder (as defined below) that holds the Common Stock as a capital asset for tax purposes. This section does not apply to a US Holder that is a member of a special class of holders subject to special rules, including:

- a financial institution,
- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings,
- a real estate investment trust,
- a regulated investment company,
- U.S. expatriates,
- persons who acquired Common Stock pursuant to the exercise of any employee share option or otherwise as compensation,
- a tax-exempt organization,
- an insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of the stock of the Company (by vote or value),
- a person that owns Common Stock through a partnership or other pass-through entity or arrangement,
- a person that holds Common Stock as part of a straddle or a hedging or conversion transaction,
- a person whose functional currency is not the US dollar, or
- a person subject to special tax accounting rules as a result of any item of gross income with respect to the Common Stock being taken into account in an applicable financial statement.

This section is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Bermuda.

This section does not describe any tax consequences arising out of the tax laws of any state, local or non-U.S. jurisdiction, any estate or gift tax consequences or the Medicare tax on certain “net investment income.” If an entity or arrangement that is treated as a partnership for United States federal income tax purposes holds the Common Stock, the treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partners in such partnerships should consult with their tax advisors.

For purposes of this discussion, a US Holder is a beneficial owner of Common Stock that is:

- an individual who is a citizen or resident of the United States,
- a US domestic corporation (or other entity taxable as a US domestic corporation for United States federal income tax purposes),
- an estate the income of which is subject to United States federal income tax regardless of its source, or
- a trust, if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person.

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US Holders should consult their own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of shares in their particular circumstances.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, US Holders will include in gross income the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes). The amount of dividends will include any cash distributions and the fair market value of certain stock distributions and distributions of other property. In this regard, if the distribution is at the election of any stockholder, payable either in cash or in shares, the receipt of shares by the US Holders would generally be treated as a taxable distribution in an amount equal to the fair market value of such shares as of the date of the distribution. The dividend is ordinary income that the US Holder must include in income when the dividend is actually or constructively received. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US Holder’s basis in the shares and thereafter as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under United States federal income tax principles. Therefore, a US Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

With respect to non-corporate taxpayers, dividends may be taxed at the lower applicable capital gains rate provided that (1) the Common Stock is readily tradable on an established securities market in the United States, (2) the Company is not a PFIC (as discussed below) for either the Company’s taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Common Stock generally is considered for purposes of clause (1) above to be readily tradable on an established securities market if it is listed on the NYSE. US Holders should consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the Company’s Common Stock.

For foreign tax credit limitation purposes, the dividend will generally constitute foreign source income and will generally be “passive category income.”

Sale or Other Disposition of Common Stock

Subject to the PFIC rules discussed below, upon the sale or other disposition of shares, a US Holder will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US Holder’s amount realized and the US Holder’s tax basis in such shares. If a US Holder receives consideration for shares paid in a currency other than the US dollar, the US Holder’s amount realized will be the US dollar value of the payment received. In general, the US dollar value of such a payment will be determined on the date of sale or disposition. On the settlement date, a US Holder may recognize US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, if the shares are treated as traded on an established securities market and the US Holder is a cash basis taxpayer or an accrual basis taxpayer who has made a special election, the US dollar value of the amount realized in a foreign currency is determined by translating the amount received at the spot rate of exchange on the settlement date of the sale, and no exchange gain or loss would be recognized at that time. Capital gain of a non-corporate US Holder is generally taxed at a reduced rate where the property is held more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

The Company believes that its shares should not be treated as stock of a PFIC for United States federal income tax purposes for the taxable year that ended on December 31, 2021. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the United States Internal Revenue Service will not take a contrary position. In addition, PFIC status is a factual determination which cannot be made until the close of the taxable year. Accordingly, there is no guarantee that the Company will not be a PFIC for any future taxable year. Furthermore, because the total value of the Company’s assets for purposes of the asset test generally will be calculated using the market price of the Company’s shares, our PFIC status will depend in large part on the market price of the Company’s shares. Accordingly, fluctuations in the market price of the Company’s shares could render the Company a PFIC for any year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

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- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

In the PFIC determination, the Company will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

If the Company were to be treated as a PFIC for any year during the US Holder’s holding period, unless a US Holder elects to be taxed annually on a mark-to-market basis with respect to the shares (which election may be made only if the Company’s shares are “marketable stock” within the meaning of Section 1296 of the Code), a US Holder will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition (including a pledge) of that holder’s shares. Distributions a US Holder receives in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the holder’s holding period for the shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the US Holder’s holding period for the shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company is treated as a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the shares cannot be treated as capital, even if the shares are held as capital assets. If the Company were to be treated as a PFIC for any year during which a US Holder holds the shares, the Company generally would continue to be treated as a PFIC with respect to that US Holder for all succeeding years during which it owns the shares. If the Company were to cease to be treated as a PFIC, however, a US Holder may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the shares.

If a US Holder holds shares in any year in which the Company is a PFIC, that holder will be required to file an annual information report with the United States Internal Revenue Service.

Information Reporting and Backup Withholding

Dividend payments with respect to our shares and proceeds from the sale, exchange or redemption of our shares may be subject to information reporting to the United States Internal Revenue Service and possible United States backup withholding. Backup withholding will not apply, however, to a US Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. US Holders that are required to establish their exempt status generally must provide such certification on United States Internal Revenue Service Form W-9. US Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the United States Internal Revenue Service and furnishing any required information in a timely manner.

Additional Reporting Requirements

Certain US Holders who are individuals are required to report information relating to an interest in our shares, subject to certain exceptions. Under certain circumstances, an entity may be treated as an individual for purposes of these rules. US Holders should consult their tax advisors regarding the effect, if any, of this United States federal income tax legislation on their ownership and disposition of our shares.

Documents on Display

The SEC maintains a website at www.sec.gov/ that contains reports, proxy and information statements and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are required to use the EDGAR system. We have done so in the past and will continue to do so in order to make our reports available through the SEC's website. In addition, we upload our reports on our website at www.cyilimited.com.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market rate risks due to fluctuations in interest rates. The majority of Yuchai's debt is variable rate short-term, medium-term and long-term Renminbi denominated borrowings obtained by Yuchai. The interest rates of such borrowings are generally established in accordance with directives announced from time to time by the PBOC, which are in turn affected by various factors such as the general economic conditions in China and the monetary policies of the Chinese government. The investment market sentiments may also have an impact over our securities investment in HLGE and TCL. We also have various credit facilities from banks in Singapore to finance our working capital requirements. As of December 31, 2021, we had outstanding consolidated loans of RMB 2,203.0 million (US\$348.5 million).

The Company is exposed to the following market risk factors:

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 and derivative financial instruments.

Interest rate risk

The primary source of the Company's interest rate risk relates to interest-bearing bank deposits and its borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Company are disclosed in Note 26. As certain rates are based on interbank offer rates, the Company 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 Company, any variation in the interest rates may have a material impact on the results of the Company.

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest-bearing financial liabilities at December 31, 2021 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, 2021 of the Company would increase/decrease by RMB 15.4 million (US\$2.4 million) (2020: profit increase/decrease by RMB 20.9 million).

Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and financial liabilities that are denominated in currencies other than the respective functional currencies of entities within the Company. The currencies giving rise to this risk in fiscal years 2020 and 2021 are primarily Singapore dollar, Euro, Renminbi and the 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. We use derivative financial instruments, such as forward currency contracts, to hedge our foreign currency risks. We do not apply hedge accounting.

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

2020	Singapore Dollar	Euro	United States Dollar	Renminbi	Others
	RMB	RMB	RMB	RMB	RMB
			(in thousands)		
Quoted equity securities	6,258	—	—	—	—
Trade and other receivables	620	8,624	913	305	372
Cash and bank balances	181,575	3,829	45,203	—	15,086
Financial liabilities	(1,462)	—	—	—	—
Trade and other payables	(6,184)	(9,356)	(10,858)	(2,464)	—
	<u>180,807</u>	<u>3,097</u>	<u>35,258</u>	<u>(2,159)</u>	<u>15,458</u>
		Singapore Dollar	Euro	United States Dollar	Others
		RMB	RMB	RMB	RMB
			(in thousands)		
2021		606	—	—	—
Quoted equity securities		676	8,806	297	—
Trade and other receivables		164,544	2,535	4,345	14,342
Cash and bank balances		(1,428)	—	—	—
Financial liabilities		(4,551)	(8,997)	(3,651)	(510)
Trade and other payables		<u>159,847</u>	<u>2,344</u>	<u>991</u>	<u>13,832</u>
US\$		<u>25,283</u>	<u>371</u>	<u>157</u>	<u>2,188</u>

A 10% strengthening of the following major currencies against the functional currency of each of the Company'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.

	2020 RMB	2021 RMB	2021 US\$
		(in thousands)	
Singapore dollar	18,081	15,985	2,528
Euro	310	234	37
United States dollar	3,526	99	16
Renminbi	(216)	—	—

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President, who is our principal executive officer, and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable level of assurance of achieving the desired control objectives, and, in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective.

B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting refers to a process designed by, or under the supervision of, our President and Chief Financial Officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with IFRS. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- provide reasonable assurance that receipts and expenditures are being made only in accordance with our management's and/or our Board of Directors' authorization; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper overrides. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate this risk.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021 using the criteria in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("COSO"). As a result of management's evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2021.

C. Attestation Report of the Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report of this Annual Report on Form 20-F.

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D. Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that Mr. Xie Tao is an "audit committee financial expert" as defined by current SEC rules.

ITEM 16B. CODE OF ETHICS

The Company adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008, that is applicable to all its directors, senior management and employees. The Code of Business Conduct and Ethics Policy contain general guidelines for conducting the business of the Company. A copy of the Code of Business Conduct and Ethics Policy is posted on our internet website at <http://www.cyilimited.com>.

ITEM 16C. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

The following table sets forth the total remuneration that was billed to the Company (excluding HLGE) by its independent registered public accounting firm, for each of our previous two fiscal years:

	<u>2020</u>	<u>2021</u>
	<u>RMB</u>	<u>RMB</u>
	(in thousands)	
Audit fees	8,912 ⁽¹⁾	8,174 ⁽²⁾
Audit-related fees	207	323
Tax fees	126	123
All other fees	204	—
Total	9,449	8,620

(1) Represents the audit fees billed to the Company (excluding HLGE) by its independent registered public accounting firm during fiscal year 2020. The remaining audit fees for fiscal year 2020 of RMB 4.7 million were billed in 2021.

(2) Represents the audit fees billed to the Company (excluding HLGE) by its independent registered public accounting firm during fiscal year 2021. The remaining audit fees of RMB 4.8 million had not been billed as of February 28, 2022.

Audit Fees

Audit fees consist of professional services relating to the annual audits of consolidated financial statements.

Audit-Related Fees

Audit-related fees primarily consist of professional services relating to the quarterly reviews.

Tax Fees

Tax fees primarily consist of professional services in relation to transfer pricing (Local file and Master file, excluding Country-by-Country Reporting).

All Other Fees

All other fees primarily consist of professional service in relation to IFRS training activities and other advisory services.

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Pre-Approval Policies and Procedures

The Company's Audit Committee pre-approves each engagement of Ernst & Young LLP for audit-related services and certain other services (including tax services) not prohibited under the Sarbanes Oxley Act of 2002, performed and to be performed for the Company. All audit, audit-related, tax, and other fees described above were approved by the Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

As our Common Stock is listed on the NYSE, we are subject to the NYSE listing standards. The NYSE listing standards applicable to us, as a foreign private issuer, are considerably different from those applicable to U.S. companies. Under the NYSE rules, we need only (i) establish an independent audit committee; (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules of the NYSE; (iii) provide periodic (annual and interim) 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 U.S. companies. Our audit committee is comprised of three independent non-executive directors, namely Messrs. Xie Tao (Chairman), Neo Poh Kiat and Ho Raymond Chi-Keung. Each of Messrs. Xie Tao, Neo Poh Kiat and Ho Raymond Chi-Keung satisfies the "independence" requirements of Rule 10A-3 of the Exchange Act. A brief description of significant differences between our corporate governance practices, which are in compliance with Bermuda law, and those followed by U.S. companies can be found in "Item 10. Additional Information — Memorandum of Association and Bye-Laws — Corporate Governance."

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTION THAT PREVENT INSPECTION

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS

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China Yuchai International Limited

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ITEM 19. EXHIBITS

Exhibits to this Annual Report:

- 1.1 Memorandum of Association of China Yuchai International Limited or the Registrant (incorporated herein by reference to Amendment No. 1 to the Registration Statement on Form F-1, filed by the Registrant on December 8, 1994 (File No. 33-86162), or the Form F-1).^(P)
- 1.2 Bye-laws of the Registrant (incorporated herein by reference to the Form F-1).^(P)
- 2.1 [Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934. \(See “Item 10. Additional Information — Memorandum of Association and Bye-Laws”\)](#)
- 3.1 Subscription and Shareholders Agreement of Diesel Machinery (BVI) Limited, dated November 9, 1994, among Diesel Machinery (BVI) Limited, Hong Leong Asia Ltd., or Hong Leong Asia, and China Everbright Holdings Company Limited, or China Everbright Holdings (incorporated herein by reference to Amendment No. 2 to the Registration Statement on Form F-1, filed by the Registrant on December 14, 1994 (File No. 33-86162)).^(P)
- 3.2 Supplemental Subscription and Shareholders Agreement, dated January 21, 2002, between China Everbright Holdings and Hong Leong Asia (incorporated herein by reference to the Annual Report on Form 20-F for fiscal year ended December 31, 2001, filed by the Registrant on June 25, 2002 (File No. 001-013522), or Form 20-F FY2001).^(P)
- 3.3 Second Supplemental Subscription and Shareholders Agreement, dated May 17, 2002, between China Everbright Holdings and Hong Leong Asia (incorporated herein by reference to the Form 20-F FY2001).^(P)
- 4.1 Contract for the Subscription of Foreign Common shares in Guangxi Yuchai Machinery Company Limited, or Yuchai, and Conversion from a Joint Stock Limited Company into a Sino-Foreign Joint Stock Limited Company, dated April 1, 1993, among Yuchai, Guangxi Yuchai Machinery Holdings Company, Hong Leong Technology Systems (BVI) Ltd., Cathay Clemente Diesel Holdings Limited, Goldman Sachs Guangxi Holdings (BVI) Ltd., Tsang & Ong Nominees (BVI) Ltd. and Youngstar Holdings Limited with amendments, dated May 27, 1994 and October 10, 1994 (incorporated herein by reference to the Form F-1).^(P)
- 4.2 Subscription and Transfer Agreement (with Shareholders’ Agreement), dated April 1993, among Cathay Clemente (Holdings) Limited, GS Capital Partners L.P., Sun Yuan Overseas Pte Ltd., HL Technology Systems Pte Ltd and Coomber Investments Limited (incorporated herein by reference to the Registration Statement on Form F-1, filed by the Registrant on November 9, 1994 (File No. 33-86162)).^(P)
- 4.3 Amended and Restated Shareholders’ Agreement, dated as of November 9, 1994 among The Cathay Investment Fund, Limited, GS Capital Partners L.P., HL Technology Systems Pte Ltd, Hong Leong Asia Ltd., Coomber Investments Limited, China Everbright Holdings Company Limited, Diesel Machinery (BVI) Limited, owners of shares formerly held by Sun Yuan Overseas (BVI) Ltd. and the Registrant (incorporated herein by reference to the Form F-1).^(P)
- 4.4 Form of Amended and Restated Registration Right Agreement, dated as of November 9, 1994, among The Cathay Investment Fund, Limited, GS Capital Partners L.P., HL Technology Systems Pte Ltd, Coomber Investments Limited, owners of shares formerly held by Sun Yuan Overseas (BVI) Ltd. and the Registrant (incorporated herein by reference to Amendment No. 3 to the Registration Statement on Form F-1, filed by the Registrant on December 15, 1994 (File No. 33-86162)).^(P)
- 4.5 Form of Subscription Agreement between the Registrant and its wholly-owned subsidiaries named therein and Yuchai (incorporated herein by reference to Amendment No. 2 to the Registration Statement on Form F-1, filed by the Registrant on December 14, 1994 (File no. 33-86162)).^(P)
- 4.6 Share Purchase and Subscription Agreement, dated as of November 9, 1994, between the Registrant, China Everbright Holdings Company Limited and Coomber Investments Limited (incorporated herein by reference to the Form F-1).^(P)
- 4.7 [Form of indemnification agreement entered into by the Registrant with its officers and directors. \(Filed herewith\)](#)
- 4.8 [Agreement between the Registrant and Yuchai, dated July 19, 2003 \(incorporated herein by reference to the Form 20-F FY2003\).](#)
- 4.9 [Reorganization Agreement between the Company, Coomber and Yuchai, dated April 7, 2005 \(incorporated herein by reference to the Current Report on Form 6-K filed by the Registrant on April 7, 2005 \(File No. 001-13522\)\).](#)

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4.10	<u>Reorganization Agreement Amendment (No. 1) between the Registrant, Coomber and Yuchai, dated December 2, 2005 (incorporated herein by reference to the Current Report on Form 6-K filed by the Registrant on December 6, 2005 (File No. 001-13522)).</u>
4.11	<u>Reorganization Agreement Amendment (No. 2) between the Registrant, Coomber and Yuchai, dated November 30, 2006 (incorporated herein by reference to the Current Report on Form 6-K filed by the Registrant on November 30, 2006 (File No. 001-13522)).</u>
4.12	<u>Cooperation Agreement among the Registrant, Yuchai, Coomber and Guangxi Yuchai Machinery Group Company Limited, dated June 30, 2007 (incorporated herein by reference to the Current Report on Form 6-K filed by the Registrant on July 5, 2007 (File No. 001-13522)).</u>
8.1	<u>Subsidiaries of the Registrant. (Filed herewith)</u>
10.1	<u>China Yuchai International Limited Equity Incentive Plan (incorporated herein by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed by the Registrant on July 8, 2014 (File No. 333-197287)).</u>
12.1	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 and 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith)</u>
12.2	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 and 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith)</u>
13.1	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 15 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith)</u>
13.2	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 15 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith)</u>
15.1	<u>Consent of Independent Registered Public Accounting Firm. (Filed herewith)</u>
101.INS	XBRL Instance Document (Filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (Filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (Filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (Filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (Filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (Filed herewith)
104	Cover Page Interactive Data File (embedded within the Inline XBRL document) (Filed herewith)
(P)	Previously filed on paper form

The Company has not included as exhibits certain instruments with respect to its long-term debt, the total amount of debt authorized under each of which does not exceed 10% of its total consolidated assets. The Company agrees to furnish a copy of any such instrument to the SEC upon request.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CHINA YUCHAI INTERNATIONAL LIMITED

By: /s/ Hoh Weng Ming

Name: Hoh Weng Ming

Title: President and Director

Date: April 22, 2022

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China Yuchai International Limited
Consolidated Financial Statements
December 31, 2021

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China Yuchai International Limited

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 22, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Capitalization of development costs

Description of the Matter

Prior to the financial year ended December 31, 2020, the Group has commenced the process to research and develop new engine models to comply with the new engine emission standards as promulgated by the People’s Republic of China (the “Development Projects”). The efforts to develop such new engines continued during the financial year ended December 31, 2021. The Group has determined that the Development Projects met the capitalization criteria as stated in Note 2.3 (l) to the consolidated financial statements and has capitalized RMB 992.3 million (US\$ 157.0 million) of development costs as of December 31, 2021, as disclosed in Note 12 to the consolidated financial statements.

Auditing management’s recognition of capitalized development costs was complex because the capitalization of development costs requires the application of management judgment to determine, amongst others, what continues to constitute development activities and when a Development Project should cease further capitalization of development costs. Management judgment is also required to ascertain the nature of expenses that qualify for capitalization.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested controls over the authorization, approval and recording of expenses and controls over monitoring of the status of the on-going Development Projects.

Our audit procedures included, among others, evaluating management’s judgment related to the determination of the research and development phases, and the determination of which development costs can be capitalized by conducting inquiries of the engineers in the Research and Development (“R&D”) department to understand the progress of the Development Projects. In addition, for a sample of Development Projects, we evaluated the status of each project, and the costs capitalized by comparing the supporting documents to the Company’s capitalization criteria. We evaluated management’s assessment that the Development Projects continued to be in-progress by inspecting the testers’ feedback and responses from the R&D department on a sample basis.

We have served as the Company's auditor since 2009
Singapore
April 22, 2022

China Yuchai International Limited

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited China Yuchai International Limited’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the “COSO criteria”). In our opinion, China Yuchai International Limited (the “Company”) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated statements of financial position of the Company as of December 31, 2021 and 2020, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated April 22, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP
Singapore
April 22, 2022

[Table of Contents](#)**China Yuchai International Limited****Consolidated Statement of Profit or Loss**

	Note	31.12.2019 RMB'000	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Revenue	6	18,016,085	20,581,170	21,265,930	3,363,691
Cost of sales	7.1	(14,910,244)	(17,391,599)	(18,313,817)	(2,896,747)
Gross profit		3,105,841	3,189,571	2,952,113	466,944
Other operating income	7.2(a)	347,161	400,269	326,171	51,591
Other operating expenses	7.2(b)	(8,675)	(21,322)	(9,982)	(1,579)
Research and development expenses	7.1	(492,204)	(626,478)	(848,812)	(134,259)
Selling, general and administrative expenses	7.1	(1,806,042)	(1,760,036)	(1,755,957)	(277,745)
Operating profit		1,146,081	1,182,004	663,533	104,952
Finance costs	7.3	(131,796)	(151,170)	(115,928)	(18,337)
Share of (loss)/profit of associates, net of tax		(181)	452	90	14
Share of profit/(loss) of joint ventures, net of tax	5	19,215	(59,422)	(95,985)	(15,182)
Profit before tax		1,033,319	971,864	451,710	71,447
Income tax expense	8	(172,619)	(192,538)	(43,816)	(6,930)
Profit for the year		<u>860,700</u>	<u>779,326</u>	<u>407,894</u>	<u>64,517</u>
Attributable to:					
Equity holders of the company		604,914	548,903	272,673	43,129
Non-controlling interests		255,786	230,423	135,221	21,388
		<u>860,700</u>	<u>779,326</u>	<u>407,894</u>	<u>64,517</u>
Earnings per share (dollar per share)					
- Basic	9	14.81	13.43	6.67	1.06
- Diluted	9	<u>14.81</u>	<u>13.43</u>	<u>6.67</u>	<u>1.06</u>

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

[Table of Contents](#)**China Yuchai International Limited****Consolidated Statement of Comprehensive Income**

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Profit for the year	860,700	779,326	407,894	64,517
Other comprehensive income				
<i>Items that may be reclassified to profit or loss in subsequent periods, net of tax:</i>				
Foreign currency translation	8,467	(63,864)	(36,685)	(5,802)
Net fair value change on debt instruments at fair value through other comprehensive income	3,050	(2,752)	63,890	10,106
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods, representing other comprehensive income for the year, net of tax	11,517	(66,616)	27,205	4,304
Total comprehensive income for the year, net of tax	<u>872,217</u>	<u>712,710</u>	<u>435,099</u>	<u>68,821</u>
Attributable to:				
Equity holders of the company	610,369	492,966	293,240	46,383
Non-controlling interests	261,848	219,744	141,859	22,438
	<u>872,217</u>	<u>712,710</u>	<u>435,099</u>	<u>68,821</u>

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

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China Yuchai International Limited

Consolidated Statement of Financial Position

	Note	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	10	4,258,760	4,197,909	663,995
Investment property	11	5,829	5,086	804
Intangible assets	12	1,483,968	1,758,582	278,160
Investment in associates		2,393	2,467	390
Investment in joint ventures	5	227,120	151,095	23,899
Deferred tax assets	8	400,198	398,174	62,980
Long-term bank deposits	16	140,000	110,000	17,399
Right-of-use assets	17	384,001	344,814	54,540
Capitalized contract cost	6.2	127,704	147,499	23,330
		<u>7,029,973</u>	<u>7,115,626</u>	<u>1,125,497</u>
Current assets				
Inventories	13	4,471,195	5,208,636	823,864
Trade and other receivables	15	8,459,088	7,538,096	1,192,322
Other current assets	14	23,164	16,773	2,653
Cash and cash equivalents	16	5,877,647	4,788,219	757,366
Short-term bank deposits	16	258,756	357,335	56,521
Restricted cash	16	171,135	76,001	12,021
		<u>19,260,985</u>	<u>17,985,060</u>	<u>2,844,747</u>
Total assets		<u>26,290,958</u>	<u>25,100,686</u>	<u>3,970,244</u>

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China Yuchai International Limited

Consolidated Statement of Financial Position

	Note	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
EQUITY AND LIABILITIES				
Equity				
Issued capital	18	2,081,138	2,081,138	329,179
Statutory reserves	20	307,165	309,237	48,913
Capital reserves	20	30,704	30,704	4,857
Retained earnings		6,756,976	6,578,865	1,040,597
Other components of equity	20	(161,359)	(140,792)	(22,269)
Equity attributable to equity holders of the company		9,014,624	8,859,152	1,401,277
Non-controlling interests		2,818,086	2,756,192	435,955
Total equity		<u>11,832,710</u>	<u>11,615,344</u>	<u>1,837,232</u>
Non-current liabilities				
Loans and borrowings	26	500,000	100,000	15,817
Lease liabilities	25	17,023	13,406	2,120
Contract liabilities	24	67,269	69,173	10,941
Deferred tax liabilities	8	112,456	65,544	10,367
Deferred grants	27	518,142	411,658	65,113
Other payables	22	191,563	188,725	29,851
		<u>1,406,453</u>	<u>848,506</u>	<u>134,209</u>
Current liabilities				
Trade and other payables	22	10,110,968	9,639,115	1,524,646
Loans and borrowings	26	1,730,000	2,103,000	332,637
Lease liabilities	25	22,755	27,125	4,290
Contract liabilities	24	868,193	573,259	90,674
Provision for taxation		50,801	41,309	6,534
Provision	23	269,078	253,028	40,022
		<u>13,051,795</u>	<u>12,636,836</u>	<u>1,998,803</u>
Total liabilities		<u>14,458,248</u>	<u>13,485,342</u>	<u>2,133,012</u>
Total equity and liabilities		<u>26,290,958</u>	<u>25,100,686</u>	<u>3,970,244</u>

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

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China Yuchai International Limited

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the company										
	Issued capital	Statutory reserves	Capital reserves	Retained earnings	Foreign currency translation reserve	Performance shares reserve	Fair value 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, 2019	2,081,138	302,404	30,704	6,092,549	(39,215)	19,758	(79,948)	(11,541)	8,395,849	2,751,705	11,147,554
Profit for the year	—	—	—	604,914	—	—	—	—	604,914	255,786	860,700
Other comprehensive income for the year, net of tax	—	—	—	—	3,124	—	2,331	—	5,455	6,062	11,517
Total comprehensive income for the year	—	—	—	604,914	3,124	—	2,331	—	610,369	261,848	872,217
<i>Contributions by and distributions to owners</i>											
Dividends declared and paid (US\$ 0.85 per share) (Note 19)	—	—	—	(238,758)	—	—	—	—	(238,758)	—	(238,758)
<i>Transaction with non-controlling interests</i>											
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	(207,514)	(207,514)
<i>Changes in ownership interests in subsidiary</i>											
Acquisition of non-controlling interests	—	—	—	—	—	—	—	69	69	(183)	(114)
<i>Other</i>											
Transfer to statutory reserves	—	1,903	—	(1,903)	—	—	—	—	—	—	—
At December 31, 2019	<u>2,081,138</u>	<u>304,307</u>	<u>30,704</u>	<u>6,456,802</u>	<u>(36,091)</u>	<u>19,758</u>	<u>(77,617)</u>	<u>(11,472)</u>	<u>8,767,529</u>	<u>2,805,856</u>	<u>11,573,385</u>

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

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China Yuchai International Limited

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2020	2,081,138	304,307	30,704	6,456,802	(36,091)	19,758	(77,617)	(11,472)	8,767,529	2,805,856	11,573,385
Profit for the year	—	—	—	548,903	—	—	—	—	548,903	230,423	779,326
Other comprehensive income for the year, net of tax	—	—	—	—	(53,834)	—	(2,103)	—	(55,937)	(10,679)	(66,616)
Total comprehensive income for the year	—	—	—	548,903	(53,834)	—	(2,103)	—	492,966	219,744	712,710
Contributions by and distributions to owners											
Dividends declared and paid (US\$ 0.85 per share) (Note 19)	—	—	—	(245,871)	—	—	—	—	(245,871)	—	(245,871)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	(207,514)	(207,514)
Other											
Transfer to statutory reserves	—	2,858	—	(2,858)	—	—	—	—	—	—	—
At December 31, 2020	<u>2,081,138</u>	<u>307,165</u>	<u>30,704</u>	<u>6,756,976</u>	<u>(89,925)</u>	<u>19,758</u>	<u>(79,720)</u>	<u>(11,472)</u>	<u>9,014,624</u>	<u>2,818,086</u>	<u>11,832,710</u>

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

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China Yuchai International Limited

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the company										
	Issued capital RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Performance shares reserve RMB'000	Fair value reserve RMB'000	Premium paid for acquisition of non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2021	2,081,138	307,165	30,704	6,756,976	(89,925)	19,758	(79,720)	(11,472)	9,014,624	2,818,086	11,832,710
Profit for the year	—	—	—	272,673	—	—	—	—	272,673	135,221	407,894
Other comprehensive income for the year, net of tax	—	—	—	—	(28,251)	—	48,818	—	20,567	6,638	27,205
Total comprehensive income for the year	—	—	—	272,673	(28,251)	—	48,818	—	293,240	141,859	435,099
Contributions by and distributions to owners											
Dividends declared and paid (US\$ 1.70 per share) (Note 19)	—	—	—	(448,712)	—	—	—	—	(448,712)	—	(448,712)
Transaction with non-controlling interests											
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	(203,753)	(203,753)
Other											
Transfer to statutory reserves	—	2,072	—	(2,072)	—	—	—	—	—	—	—
At December 31, 2021	<u>2,081,138</u>	<u>309,237</u>	<u>30,704</u>	<u>6,578,865</u>	<u>(118,176)</u>	<u>19,758</u>	<u>(30,902)</u>	<u>(11,472)</u>	<u>8,859,152</u>	<u>2,756,192</u>	<u>11,615,344</u>
US\$'000	<u>329,179</u>	<u>48,913</u>	<u>4,857</u>	<u>1,040,597</u>	<u>(18,692)</u>	<u>3,125</u>	<u>(4,888)</u>	<u>(1,814)</u>	<u>1,401,277</u>	<u>435,955</u>	<u>1,837,232</u>

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

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China Yuchai International Limited
Consolidated Statement of Cash Flows

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Operating activities				
Profit before tax	1,033,319	971,864	451,710	71,447
Adjustments:				
Amortization of intangible asset	1,012	1,012	38,957	6,162
Bad debt written off/(recovered)	—	40	(5)	(1)
Depreciation of:				
- investment property	380	376	355	56
- property, plant and equipment	422,859	450,092	492,826	77,952
- right-of-use assets	40,958	43,127	41,458	6,558
Dividend income from quoted equity securities	(959)	(166)	(168)	(26)
Exchange (gain)/loss	(4,679)	(1,827)	3,271	518
Fair value loss/(gain) on foreign exchange forward contract	5,529	(999)	—	—
Fair value (gain)/loss on quoted equity securities	(1,118)	1,196	(138)	(22)
Finance costs	131,796	151,170	115,928	18,337
(Gain)/loss on disposal of:				
- property, plant and equipment	645	4,183	(1,224)	(194)
- quoted equity securities	(11,528)	(874)	(5,416)	(857)
- right-of-use assets	(9,237)	(2,574)	(14,714)	(2,327)
Government grants	(122,371)	(209,793)	(152,932)	(24,190)
Interest income	(177,261)	(166,970)	(132,083)	(20,892)
Impairment losses on:				
- development property	3,039	—	—	—
- property, plant and equipment	3,950	3,920	7,227	1,143
Impairment losses /(reversal of impairment losses) on trade receivables	32,340	(13,849)	(7,987)	(1,263)
Impairment losses /(reversal of impairment losses) on non-trade receivables	—	638	(538)	(85)
Impairment losses/(reversal of write-down) of inventories, net	17,022	27,978	(9,010)	(1,425)
Inventories written off	—	—	10,085	1,595
Property, plant and equipment written off	4,137	7,417	1,134	179
Provision for onerous contract, net	2,316	11,323	(8,810)	(1,394)
Share of (profit)/loss of associates and joint ventures, net of tax	(19,034)	58,970	95,895	15,168
Write-back of trade and other payables	(2,087)	(1,052)	—	—
Profit before tax after adjustments	<u>1,351,028</u>	<u>1,335,202</u>	<u>925,821</u>	<u>146,439</u>

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

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Consolidated Statement of Cash Flows

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Changes in working capital				
Increase in inventories	(314,904)	(1,687,639)	(740,835)	(117,179)
(Increase)/decrease in trade and other receivables and capitalized contract cost	(514,163)	(238,571)	1,105,093	174,796
Increase/(decrease) in trade and other payables and contract liabilities	1,294,214	2,241,327	(614,601)	(97,213)
Increase in development properties	(71)	(75)	(202)	(31)
Cash flows from operating activities	1,816,104	1,650,244	675,276	106,812
Income taxes paid	(233,088)	(234,876)	(170,720)	(27,003)
Net cash flows from operating activities	1,583,016	1,415,368	504,556	79,809
Investing activities				
Payment for trademarks usage fee	(169,811)	—	—	—
Additional investment in subsidiaries	(114)	—	—	—
Additional investment in a joint ventures	(41,160)	—	(17,640)	(2,790)
Development costs	(345,128)	(500,147)	(287,480)	(45,472)
Dividend received from:				
- joint ventures	821	—	—	—
- quoted equity securities	959	166	135	21
Interest received	173,745	171,556	125,004	19,772
Proceeds from disposal of:				
- property, plant and equipment	1,178	2,385	405	64
- quoted equity securities	16,429	1,354	6,485	1,026
- right-of-use assets	11,008	5,772	34,123	5,397
Proceeds from government grants	191,491	123,178	51,862	8,203
Purchase of property, plant and equipment	(749,087)	(584,676)	(572,047)	(90,482)
Tax and relevant expenses in relation to disposal of subsidiary ⁽ⁱ⁾	(38,887)	—	—	—
Withdrawal/(placement) of fixed deposits with banks, net	138,079	(5,341)	(79,695)	(12,606)
Net cash flows used in investing activities	(810,477)	(785,753)	(738,848)	(116,867)

Note:

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

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

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Consolidated Statement of Cash Flows

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Financing activities				
Dividends paid to:				
- equity holders of the company	(238,758)	(245,871)	(448,712)	(70,974)
- non-controlling interests	(203,167)	(205,525)	(223,917)	(35,418)
Interest paid and discounting on bills receivable	(139,118)	(148,793)	(115,813)	(18,318)
Payment of principal portion of lease liabilities	(48,365)	(35,363)	(23,121)	(3,657)
Proceeds from borrowings	2,040,752	2,230,000	1,938,920	306,684
Repayment of borrowings	(2,000,773)	(2,056,280)	(1,965,920)	(310,955)
Net cash flows used in financing activities	(589,429)	(461,832)	(838,563)	(132,638)
Net increase/(decrease) in cash and cash equivalents	183,110	167,783	(1,072,855)	(169,696)
Cash and cash equivalents at January 1	5,559,890	5,753,268	5,877,647	929,684
Effect of exchange rate changes on balances in foreign currencies	10,268	(43,404)	(16,573)	(2,622)
Cash and cash equivalents at December 31	5,753,268	5,877,647	4,788,219	757,366

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

1. Corporate information

1.1 Incorporation

The consolidated financial statements of China Yuchai International Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended December 31, 2021 were authorized for issue in accordance with a resolution of the directors on April 22, 2022.

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

1.2 Investment in Guangxi Yuchai Machinery Company Limited

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

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

As of December 31, 2021, Yuchai has 11 (2020: nine) direct and 33 (2020: 33) indirectly owned subsidiaries, four (2020: four) joint ventures and one (2020: one) associate. Guangxi Yuchai Machinery Monopoly Development Co., Ltd. (“YMMC”) and Guangxi Yuchai Accessories Manufacturing Company Limited (“GYAMC”) are the two most significant subsidiaries of Yuchai. YMMC has 29 (2020: 29) wholly-owned subsidiaries (collectively “YMMC Group”) located at various provinces in the PRC. The principal business of YMMC Group are trading and distribution of components of diesel engines and automobiles. GYAMC has two wholly-owned subsidiaries (collectively “GYAMC Group”). The principal business of GYAMC Group are sales and manufacturing of components of diesel engines. In December 2021, Yuchai incorporated a new wholly owned subsidiary, Guangxi Yuchai Deyou Engine Systems Co.,Ltd to succeed the trading business previously conducted by another wholly owned subsidiary, Guangxi Yuchai Deyou Engine Co., Ltd (“YDEC”). YDEC will take over the operations of Yuchai’s marine and power generation unit under the new name of Guangxi Yuchai Marine and Genset Power Co., Ltd.

The detailed information of Yuchai’s significant subsidiaries and joint ventures are disclosed in Notes 4 and 5.

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

1.3 Investment in HL Global Enterprises Limited

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

1. Corporate information (cont'd)

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

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

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

As of December 31, 2020 and 2021, the Group's shareholding interest in HLGE remains at 50.2%, net of the ordinary shares held by the Trustee under the Trust.

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

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

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

Translation of amounts from Renminbi to the United States Dollar ("US Dollar") is solely for the convenience of the reader. Translation of amounts from Renminbi to US Dollar has been made at the rate of RMB 6.3222 = US\$ 1.00, the rate quoted by the People's Bank of China at the close of business on February 28, 2022 and all values are rounded to the nearest thousand ("US\$'000"), except when otherwise indicated.

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.2 Basis of consolidation (cont'd)

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

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

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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 of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(b) Investments in associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associates and joint ventures are accounted for using the equity method.

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

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

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(c) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

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

The Group classifies all other liabilities as non-current.

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

(d) Fair value measurement

The Group measures financial instruments, such as quoted equity securities and bills receivable and a foreign exchange forward contract, at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(d) Fair value measurement (cont'd)

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

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

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

- Quoted equity securities Note 33
- Bills receivable Note 33
- Foreign exchange forward contract Note 33

(e) Foreign currency translation

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

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

Transactions and balances

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

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

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

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

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liabilities relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(e) Foreign currency translation (cont'd)

Group companies

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

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

(f) Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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

Sale of engines

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

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties). In determining the transaction price for the sale of engines, the Group considers the effects of variable consideration and the existence of significant financing components.

(i) Variable consideration

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

Volume rebates

The Group provides certain customers with retrospective volume rebates when the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable considerations for the expected future rebates, the Group applies the most likely amount method for each individual contract. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized in "Trade and other payables" (Note 22) for the expected future rebates (i.e., the amount not included in the transaction price).

Sales Returns

The Group does not extend its sales returns policy to all customers. However the Group allows for certain returns, only on a case-by-case basis. The Group uses the expected value method to estimate the provision for such returns based on the historical return rates and account for it as a reduction in revenue and form part of refund liability that is recognized in "Trade and other payables" (Note 22). A corresponding right of return assets is recognized in "Trade and other receivables" (Note 15).

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Sale of engines (cont'd)

(ii) Significant financing component

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

Warranty obligations

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

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

Sale of completed development properties

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

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

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

Rendering of services

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

Contract balances

Trade receivables

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

Contract liabilities

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Right of return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return and volume rebates. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Costs to fulfil a contract

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

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

(g) Government grants

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

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(h) Taxes (cont'd)

Deferred tax (cont'd)

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

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

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

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

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

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

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

Sales tax

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

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

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

(i) Cash dividend and non-cash distribution to equity holders of the company

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(j) Property, plant and equipment

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

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

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

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

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

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

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

(k) Investment properties

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development costs

Research costs are expensed as incurred.

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. Development costs are amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Goodwill

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(l) Intangible assets (cont'd)

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

	Trademarks	Technology know-how	Development costs
Useful lives	Indefinite	8 years	*
Amortization method used	No amortization	Amortized on a straight-line basis over the period of the technology know-how	*
Internally generated or acquired	Acquired	Internally generated	Internally generated

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

(m) Financial instruments – Initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement

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

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

Financial assets at amortized cost (debt instruments)

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

The Group’s financial assets at amortized cost includes trade and other receivables, and certain bills receivables that are held to maturity.

Financial assets at fair value through OCI (debt instruments)

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

The Group’s debt instruments at fair value through OCI includes certain bills receivable that are not held to maturity.

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Subsequent measurement (cont'd)

Financial assets at fair value through profit or loss

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

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

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

Derecognition

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial assets (cont'd)

Impairment

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

- Debt instruments at fair value through OCI represented by bills receivable (Note 15)
- Trade receivables (Note 15)

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

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

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

For debt instruments at fair value through OCI, the Group applies the low credit risk simplifications. At every reporting date, the Group evaluate whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making the evaluation, the Group reassesses the external credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

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

Financial liabilities (cont'd)

Subsequent measurement

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Financial liabilities at amortized cost

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

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

This category generally applies to loans and borrowings, lease liabilities, other liabilities and payables. For more information, refer to Note 22, 25 and 26.

De-recognition

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

Offsetting of financial instruments

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(n) Inventories

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

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

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

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

(o) Impairment of non-financial assets

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

- Disclosures for significant assumptions (Note 3)
- Investment in joint ventures (Note 5)
- Property, plant and equipment (Note 10)
- Investment property (Note 11)
- Intangible assets (Note 12)
- Right-of-use assets (Note 17)

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

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of eight to ten years. A long-term growth rate is calculated and applied to project future cash flows after the tenth year where appropriate. Impairment losses are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

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

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

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(p) Cash and cash equivalents

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

(q) Leases

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

Group as a lessee

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

(i) Right-of-use assets

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

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

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

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

(ii) Lease liabilities

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

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

(iii) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of land and building (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(q) Leases (cont'd)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

(r) Borrowing costs

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

(s) Provisions

General

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

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

Product warranty

The Group recognizes a liability at the time the product is sold, for the estimated future costs relating to the assurance-type warranties, to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road applications engines, warranties extend for a duration (generally 3 to 36 months) or mileage (generally 5,000 to 300,000 kilometers), whichever materializes first. For other applications engines, warranties extend for a duration of generally 3 to 36 months or running hours of 300 to 4,000 hours, whichever materializes first. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

Onerous contract

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(t) Pensions and other post-employment benefits

Defined contribution plans

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

Employee leave entitlement

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

(u) Share-based payments

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

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 21.

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 9).

(v) Development properties

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

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

Costs to complete development include cost of land and other direct and related development expenditure, including borrowing costs incurred in developing the properties.

Net realizable value of development properties is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.3 Summary of significant accounting policies (cont'd)

(w) Derivative financial instruments

Initial recognition and subsequent measurement

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

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

Covid-19-Related Rent Concessions beyond June 30, 2021 Amendments to IFRS 16

On May 28, 2020, the IASB issued *Covid-19-Related Rent Concessions—amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

2.5 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – *Amendments to IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations* - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the “10 per cent” test for de-recognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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Notes to the Consolidated Financial Statements

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

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

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group’s accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the IASB issued *amendments to IAS 12*, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the IASB expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Group.

3. Significant accounting judgments, estimates and assumptions

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

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

- Capital management (Note 32)
- Financial risk management objectives and policies (Note 31)
- Sensitivity analyses disclosures (Note 12 and 31)

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

3.1 Judgments

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

Revenue from Contracts with Customers

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

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

The Group provides certain warranties for both general repairs and maintenance service as part of the sales of engines. For general repairs, such warranties will be assurance-type warranty that will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. For maintenance services, it will be accounted for as a service-type warranties that are capable of being distinct and customers can benefit from the service on its own. Hence, the Group identified two separate performance obligation, one is the promise to transfer the engine and the other one is to provide maintenance services after reaching certain on-road mileage or running hours. Consequently, the Group allocated a portion of the transaction price to the engines and the maintenance services based on a combination of expected cost plus a margin and residual approaches. Please refer to Note 6.3.

Derecognition of bills receivable

The Group sell certain bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the derecognition of bills receivable when discounted, the management believes that the contractual right to receive the cash flows from the asset have terminated with the Group, but transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 15.

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, 2020 and 2021 are RMB 400.2 million and RMB 398.2 million (US\$ 63.0 million) respectively, and primarily relate to unutilized capital allowances and investment allowances, as well as other unrecognized temporary differences relating to asset impairment and deferred grants. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 159.2 million (US\$ 25.2 million) for year ended December 31, 2021 (2020: RMB 157.6 million).

Development costs

Development costs are capitalized in accordance with the accounting policy in Note 2.3 (l). Capitalization of development costs requires the application of management judgment to determine, what continues to constitute development activities and when a development project should cease further capitalization of development costs. Management judgment is also required to ascertain the nature of expenses that qualify for capitalization.

3.2 Estimates and assumptions

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

3.2 Estimates and assumptions (cont'd)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the forecasts for the next eight to ten years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The Group, based on its history of operations, believes that the adoption of forecast for more than five years is reasonable. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, development costs and trademarks recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 12.

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	
		31.12.2020 %	31.12.2021 %
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

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

	31.12.2019	31.12.2020	31.12.2021	
Proportion of equity interest held by NCI				
Yuchai	23.6%	23.6%		23.6%
	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Accumulated balances of material NCI				
Yuchai	2,603,227	2,624,933	2,574,669	407,243
Profit allocated to material NCI				
Yuchai	254,284	229,231	153,500	24,280
Dividends paid to material NCI				
Yuchai	207,514	207,514	203,753	32,228

[Table of Contents](#)**China Yuchai International Limited****Notes to the Consolidated Financial Statements****4. Investments in subsidiaries (cont'd)**

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

	31.12.2019
	Yuchai
	RMB'000
Summarized statement of comprehensive income	
Revenue	17,980,304
Profit after tax	825,807
Total comprehensive income for the year	828,861
Attributable to NCI	254,284
Summarized statement of cash flows	
Operating	1,632,557
Investing	(858,904)
Financing	(656,576)
Net increase in cash and cash equivalents	117,077
	31.12.2020
	Yuchai
	RMB'000
Summarized statement of financial position	
Current assets	18,395,754
Non-current assets, excluding goodwill	6,722,233
Goodwill	212,636
Current liabilities	(13,035,680)
Non-current liabilities	(1,293,007)
Net assets	11,001,936
Total equity	11,001,936
Attributable to NCI	2,624,933
Summarized statement of comprehensive income	
Revenue	20,557,660
Profit after tax	829,042
Total comprehensive income for the year	826,214
Attributable to NCI	229,231
Summarized statement of cash flows	
Operating	1,476,034
Investing	(794,291)
Financing	(505,997)
Net increase in cash and cash equivalents	175,746

China Yuchai International Limited

Notes to the Consolidated Financial Statements

4. Investments in subsidiaries (cont'd)

	31.12.2021	
	Yuchai	
	RMB'000	US\$'000
Summarized statement of financial position		
Current assets	17,067,747	2,699,653
Non-current assets, excluding goodwill	6,812,500	1,077,552
Goodwill	212,636	33,633
Current liabilities	(12,620,344)	(1,996,195)
Non-current liabilities	(781,986)	(123,689)
Net assets	10,690,553	1,690,954
Total equity	10,690,553	1,690,954
Attributable to NCI	2,574,669	407,243
Summarized statement of comprehensive income		
Revenue	21,254,134	3,361,826
Profit after tax	443,499	70,149
Total comprehensive income for the year	506,769	80,157
Attributable to NCI	153,500	24,280
Summarized statement of cash flows		
Operating	588,727	93,121
Investing	(674,686)	(106,717)
Financing	(1,002,764)	(158,610)
Net increase in cash and cash equivalents	(1,088,723)	(172,206)

Significant restrictions

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

At the end of the reporting period, cash and cash equivalents of RMB 4,200.5 million (US\$ 664.4 million) (2020: RMB 5,289.2 million) held in the PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

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

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

[Table of Contents](#)**China Yuchai International Limited****Notes to the Consolidated Financial Statements****5. Investment in joint ventures**

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Share of profit/(loss) of joint ventures, net of tax:				
Y & C Engine Co., Ltd	28,484	(44,016)	(125,853)	(19,907)
MTU Yuchai Power Co., Ltd.	594	3,238	28,037	4,435
Eberspaecher Yuchai Exhaust Technology Co., Ltd	(9,366)	(19,157)	1,377	218
Other joint ventures	(497)	513	454	72
	<u>19,215</u>	<u>(59,422)</u>	<u>(95,985)</u>	<u>(15,182)</u>
		31.12.2020	31.12.2021	31.12.2021
		RMB'000	RMB'000	US\$'000
Carrying amount of investments:				
Y & C Engine Co., Ltd		145,599	22,821	3,610
MTU Yuchai Power Co., Ltd		62,217	89,481	14,153
Eberspaecher Yuchai Exhaust Technology Co., Ltd		12,638	31,655	5,007
Other joint ventures		6,666	7,138	1,129
		<u>227,120</u>	<u>151,095</u>	<u>23,899</u>

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The Group has interests in the following joint ventures:

Name of company	Principal activities	Place of incorporation/ business	Group's effective equity interest	
			31.12.2020 %	31.12.2021 %
Held by subsidiaries				
HL Heritage Sdn. Bhd.	Property development and property investment holdings	Malaysia	30.1	30.1
Shanghai Hengshan Equatorial Hotel Management Co., Ltd.	Hotel and property management	People's Republic of China	24.6	24.6
Y & C Engine Co., Ltd ("Y&C")	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	People's Republic of China	34.4	34.4
Guangxi Yineng IOT Science & Technology Co., Ltd.	Design, development, management and marketing of an electronic operations management platform	People's Republic of China	15.3	15.3
MTU Yuchai Power Co., Ltd ("MTU Yuchai Power")	Manufacture off-road diesel engines	People's Republic of China	38.2	38.2
Eberspaecher Yuchai Exhaust Technology Co. Ltd ("Eberspaecher Yuchai")	Application development, production, sales and service on engine exhaust control systems	People's Republic of China	37.4	37.4

China Yuchai International Limited

Notes to the Consolidated Financial Statements

5. Investment in joint ventures (cont'd)

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

In 2020 and 2021, the Group has performed an impairment evaluation of its investments in joint ventures and no impairment was required.

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

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Notes to the Consolidated Financial Statements

5. Investment in joint ventures (cont'd)

	31.12.2020			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000
Non-current assets	740,423	71,635	45,583	857,641
Current assets				
- Cash and bank balances	160,844	43,056	2,273	206,173
- Others	1,287,935	266,123	43,895	1,597,953
Total assets	2,189,202	380,814	91,751	2,661,767
Non-current liabilities	(417,759)	—	—	(417,759)
Current liabilities	(1,340,704)	(244,963)	(65,960)	(1,651,627)
Total liabilities	(1,758,463)	(244,963)	(65,960)	(2,069,386)
Equity	430,739	135,851	25,791	592,381
Proportion of the Group's ownership	45%	50%	49%	
Group's share of net assets	193,833	67,926	12,638	
Unrealized profit on transactions with joint venture	(48,234)	(5,709)	—	
Carrying amount of significant joint ventures	145,599	62,217	12,638	220,454
Carrying amount of other joint ventures				6,666
Carrying amount of the investment in joint ventures				227,120

	31.12.2020			
	Y & C RMB'000	MTU Yuchai Power RMB'000	Eberspaecher Yuchai RMB'000	Total RMB'000
Revenue	3,021,877	307,699	45,966	3,375,542
Depreciation and amortization	(59,406)	(2,350)	(360)	(62,116)
Interest expense	(40,709)	(1,983)	—	(42,692)
Profit/(loss) for the year, representing total comprehensive income for the year	(88,785)	6,421	(39,095)	(121,459)
Proportion of the Group's ownership	45%	50%	49%	
Group's share of profit/(loss)	(39,953)	3,211	(19,157)	
Unrealized profit on transactions with joint venture	(4,063)	27	—	
Group's share of profit/(loss) of significant joint ventures	(44,016)	3,238	(19,157)	(59,935)
Group's share of profit of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				513
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(59,422)

China Yuchai International Limited

Notes to the Consolidated Financial Statements

5. Investment in joint ventures (cont'd)

31.12.2021

	Y & C	MTU	Eberspaecher	Total	Total
	RMB'000	Yuchai Power	Yuchai	RMB'000	US\$'000
		RMB'000	RMB'000		
Non-current assets	660,856	89,749	71,858	822,463	130,091
Current assets					
- Cash and bank balances	179,779	63,609	2,105	245,493	38,830
- Others	817,972	310,394	99,352	1,227,718	194,192
Total assets	1,658,607	463,752	173,315	2,295,674	363,113
Non-current liabilities	(362,779)	—	(14,109)	(376,888)	(59,613)
Current liabilities	(1,147,416)	(271,521)	(94,604)	(1,513,541)	(239,401)
Total liabilities	(1,510,195)	(271,521)	(108,713)	(1,890,429)	(299,014)
Equity	148,412	192,231	64,602	405,245	64,099
Proportion of the Group's ownership	45%	50%	49%		
Group's share of net assets	66,785	96,116	31,655		
Unrealized profit on transactions with joint venture	(43,964)	(6,635)	—		
Carrying amount of significant joint ventures	22,821	89,481	31,655	143,957	22,770
Carrying amount of other joint ventures				7,138	1,129
Carrying amount of the investment in joint ventures				151,095	23,899

31.12.2021

	Y & C	MTU	Eberspaecher	Total	Total
	RMB'000	Yuchai Power	Yuchai	RMB'000	US\$'000
		RMB'000	RMB'000		
Revenue	2,072,721	467,800	157,316	2,697,837	426,724
Depreciation and amortization	(52,881)	(2,377)	(709)	(55,967)	(8,852)
Interest expense, net	(51,836)	(1,850)	(41)	(53,727)	(8,498)
Profit/(loss) for the year, representing total comprehensive income for the year	(282,205)	54,526	2,811	(224,868)	(35,568)
Proportion of the Group's ownership	45%	50%	49%		
Group's share of profit/(loss)	(126,992)	27,263	1,377		
Unrealized profit on transactions with joint venture	1,139	774	—		
Group's share of profit/(loss) of significant joint ventures	(125,853)	28,037	1,377	(96,439)	(15,254)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures				454	72
Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year				(95,985)	(15,182)

China Yuchai International Limited

Notes to the Consolidated Financial Statements

5. Investment in joint ventures (cont'd)

Note:

As of December 31, 2021, the Group's share of joint ventures' capital commitment that are contracted but not paid was RMB 7.0 million (US\$ 1.1 million) (2020: RMB 2.1 million).

As of December 31, 2021, the Group's share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totaled RMB 213.9 million (US\$ 33.8 million) (2020: RMB 40.1 million).

As of December 31, 2021, the Group's share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 33.1 million (US\$ 5.2 million) (2020: RMB 58.4 million).

Significant restrictions

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

The Group's share of cash and cash equivalents of RMB 39.6 million (US\$ 6.3 million) (2020: RMB 30.4 million) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

As of December 31, 2021, the Group's share of restricted cash of RMB 74.5 million (US\$ 11.8 million) (2020: RMB 65.2 million) which was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2021, the Group's share of bills receivables of RMB 22.0 million (US\$ 3.5 million) (2020: RMB 28.6 million) which was used as collateral by banks for the issuance of bills to suppliers.

6. Revenue from contracts with customers

6.1 Disaggregated revenue information

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

6. Revenue from contracts with customers (cont'd)

6.1 Disaggregated revenue information (cont'd)

Segments	31.12.2020		
	Yuchai RMB'000	HLGE RMB'000	Total RMB'000
Type of goods or services			
Heavy-duty engines	6,725,312	—	6,725,312
Medium-duty engines	6,626,629	—	6,626,629
Light-duty engines	2,356,168	—	2,356,168
Other products and services ⁽ⁱ⁾	4,809,921	—	4,809,921
Revenue from hospitality operations	39,630	23,510	63,140
Total revenue from contracts with customers	<u>20,557,660</u>	<u>23,510</u>	<u>20,581,170</u>
Geographical markets			
People's Republic of China	20,504,288	—	20,504,288
Other countries	53,372	23,510	76,882
Total revenue from contracts with customers	<u>20,557,660</u>	<u>23,510</u>	<u>20,581,170</u>
Timing of revenue recognition			
At a point in time	20,518,030	—	20,518,030
Over time	39,630	23,510	63,140
Total revenue from contracts with customers	<u>20,557,660</u>	<u>23,510</u>	<u>20,581,170</u>

Segments	31.12.2021			
	Yuchai RMB'000	HLGE RMB'000	Total RMB'000	Total US\$'000
Type of goods or services				
Heavy-duty engines	7,410,771	—	7,410,771	1,172,182
Medium-duty engines	7,065,283	—	7,065,283	1,117,535
Light-duty engines	2,429,745	—	2,429,745	384,320
Other products and services ⁽ⁱ⁾	4,304,918	77	4,304,995	680,933
Revenue from hospitality operations	43,417	11,719	55,136	8,721
Total revenue from contracts with customers	<u>21,254,134</u>	<u>11,796</u>	<u>21,265,930</u>	<u>3,363,691</u>
Geographical markets				
People's Republic of China	21,206,280	—	21,206,280	3,354,256
Other countries	47,854	11,796	59,650	9,435
Total revenue from contracts with customers	<u>21,254,134</u>	<u>11,796</u>	<u>21,265,930</u>	<u>3,363,691</u>
Timing of revenue recognition				
At a point in time	21,210,718	8,067	21,218,785	3,356,234
Over time	43,416	3,729	47,145	7,457
Total revenue from contracts with customers	<u>21,254,134</u>	<u>11,796</u>	<u>21,265,930</u>	<u>3,363,691</u>

Note:

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

6. Revenue from contracts with customers (cont'd)

6.2 Contract balances

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Trade receivables (Note 15)	289,048	524,557	82,971
Capitalized contract cost	127,704	147,499	23,330
Contract liabilities (Note 24)	<u>935,462</u>	<u>642,432</u>	<u>101,615</u>

Trade receivables are non-interest bearing and are generally on terms of 60 - 90 days.

The contract liabilities comprise short-term advance received from customers and unfulfilled service-type maintenance service. The advance received from customers is recognized as revenue upon the delivery of goods, and the contract liability arising from unfulfilled service-type warranty is recognized upon the completion of the maintenance services. According to the business customary practice, the remaining performance obligations (unfulfilled service-type maintenance service) at the year-end is expected to be satisfied within 2 years.

The significant decrease in contract liabilities as at December 31, 2021 was mainly due to lower advance payment from customers as of the year-end for future product deliveries.

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Amounts include in contract liabilities	<u>363,464</u>	<u>874,391</u>	<u>138,305</u>

(b) Capitalized contract costs

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Capitalized contract costs relating to service fee charge on development of technology know-how			
At January 1	136,457	127,704	20,199
Addition	24,147	19,795	3,131
Reclassified to development costs	(21,519)	—	—
Released to consolidated statement of profit or loss	(11,381)	—	—
At December 31	<u>127,704</u>	<u>147,499</u>	<u>23,330</u>

6.3 Performance obligations

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Within one year	112,454	140,601	22,239
More than one year	67,269	69,172	10,941
Total unfulfilled service-type maintenance service (Note 24)	<u>179,723</u>	<u>209,773</u>	<u>33,180</u>

As of December 31, 2020, the remaining performance obligations (unfulfilled maintenance service) were expected to be satisfied within three years.

In 2021, the Group has reassessed the future satisfaction period relating to the remaining performance obligations related to the unfulfilled service-type maintenance service. Based on the business development and latest data, the Group expects that the remaining performance obligation as of December 31, 2021, to be recognized within 2 years, and accordingly has applied the change of management estimation prospectively. As a result, RMB 36.7 million (US\$ 5.8 million) was credited to consolidated statement of profit or loss under "revenue" and lower the contract liability (current) by RMB 36.7 million (US\$ 5.8 million).

China Yuchai International Limited**Notes to the Consolidated Financial Statements****7.1 Depreciation, amortization, shipping and handling expenses****(a) Depreciation and amortization expenses**

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Amortization of intangible assets ⁽ⁱ⁾	1,012	1,012	38,957	6,162
Depreciation of investment property	380	376	355	56
Depreciation of property, plant and equipment	422,859	450,092	492,826	77,952
Depreciation of right-of-use assets ⁽ⁱⁱ⁾	40,958	43,127	41,458	6,558
	<u>465,209</u>	<u>494,607</u>	<u>573,596</u>	<u>90,728</u>

Note:

- (i) The higher amortization charges in 2021 is mainly due to the amortization charged on additional Technology Know-how recognized during the year which are transferred from Group capitalized development cost upon completion and ready for use.
- (ii) In 2020, COVID-19 related rent rebate received from lessors of RMB 0.2 million has been offset against the depreciation of right-of-use assets.

Depreciation and amortization expenses are included in the following captions:

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Cost of sales	315,445	327,866	381,248	60,303
Research and development expenses	16,470	26,815	41,835	6,618
Selling, general and administrative expenses	133,294	139,926	150,513	23,807
	<u>465,209</u>	<u>494,607</u>	<u>573,596</u>	<u>90,728</u>

(b) Shipping and handling expenses

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

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Selling, general and administrative expenses	<u>221,255</u>	<u>237,683</u>	<u>224,292</u>	<u>35,477</u>

China Yuchai International Limited

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7.2 (a) Other operating income

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Interest income	177,261	166,970	132,083	20,892
Dividend income from quoted equity securities	959	166	168	26
Gain on disposal of:				
- property, plant and equipment	—	—	1,224	194
- quoted equity securities	11,528	874	5,416	857
- right-of-use assets	9,237	2,574	14,714	2,327
Government grants	122,371	209,793	152,932	24,190
Fair value gain on quoted equity securities	1,118	—	138	22
Fair value gain on foreign exchange forward contract	—	999	—	—
Realised foreign exchange gain, net	3,604	1,390	—	—
Unrealised foreign exchange gain, net	4,679	1,827	—	—
Others	16,404	15,676	19,496	3,083
	<u>347,161</u>	<u>400,269</u>	<u>326,171</u>	<u>51,591</u>

7.2 (b) Other operating expenses

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Fair value loss on quoted equity securities	—	1,196	—	—
Fair value loss on foreign exchange forward contract	5,529	—	—	—
Loss on disposal of property, plant and equipment	645	4,183	—	—
Provision/(reversal) for onerous contract, net	—	13,639	(8,810)	(1,394)
Realised foreign exchange loss, net	—	—	(1,532)	(242)
Unrealised foreign exchange loss, net	—	—	3,271	518
Unrecoverable value added tax	—	—	11,164	1,766
Others	2,501	2,304	5,889	931
	<u>8,675</u>	<u>21,322</u>	<u>9,982</u>	<u>1,579</u>

7.3 Finance costs

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Bank term loans	76,721	95,357	82,109	12,987
Bills discounting	47,212	49,738	27,864	4,408
Bank charges	4,945	3,877	4,136	654
Interest on lease liabilities (Note 17)	2,918	2,198	1,819	288
	<u>131,796</u>	<u>151,170</u>	<u>115,928</u>	<u>18,337</u>

[Table of Contents](#)**China Yuchai International Limited****Notes to the Consolidated Financial Statements****7.4 Staff costs**

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Wages and salaries	1,122,712	1,364,751	1,338,777	211,758
Contribution to defined contribution plans	324,623	287,830	386,551	61,142
Executive bonuses	59,791	59,908	19,355	3,061
Staff welfare	82,692	94,982	93,992	14,867
Staff severance cost	15,454	19,712	11,771	1,862
Others	6,012	3,439	4,887	773
	<u>1,611,284</u>	<u>1,830,622</u>	<u>1,855,333</u>	<u>293,463</u>

Staff costs are included in the following captions:

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Cost of sales	808,763	912,304	985,676	155,907
Research and development expenses	243,049	258,118	283,543	44,849
Selling, general and administrative expenses	559,472	660,200	586,114	92,707
	<u>1,611,284</u>	<u>1,830,622</u>	<u>1,855,333</u>	<u>293,463</u>

8. Income tax expense

The major components of income tax expense for the years ended December 31, 2019, 2020 and 2021 are as follows:

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Current income tax				
- Current year	193,878	180,254	48,856	7,727
- Over provision in respect of prior years	(6,985)	(124)	(21,523)	(3,404)
Deferred tax				
- Movement in temporary differences	(14,274)	12,543	16,483	2,607
- Over provision in respect of prior years	—	(135)	—	—
Consolidated income tax expense reported in the statement of profit or loss	<u>172,619</u>	<u>192,538</u>	<u>43,816</u>	<u>6,930</u>

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Notes to the Consolidated Financial Statements

8. Income tax expense (cont'd)

Income tax expense reported in the consolidated statement of profit or loss differs from the amount computed by applying the PRC income tax rate of 15% (being tax rate of Yuchai) for the years ended December 31, 2019, 2020 and 2021 for the following reasons:

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Accounting profit before tax	1,033,319	971,864	451,710	71,447
Computed tax expense at 15%	154,998	145,780	67,757	10,717
Adjustments resulting from:				
Non-deductible expenses	3,982	9,188	17,795	2,815
Tax-exempt income	(6,171)	(601)	(2,181)	(345)
Utilization of deferred tax benefits previously not recognized	(5,076)	(1,996)	(29)	(5)
Deferred tax benefits not recognized	6,613	6,097	10,356	1,638
Tax credits for research and development expense	(31,863)	(26,329)	(59,633)	(9,432)
Tax rate differential	26,223	24,251	16,517	2,612
Over provision in respect of previous years	(6,985)	(259)	(21,523)	(3,404)
Withholding tax expense	30,898	36,332	14,639	2,315
Others	—	75	118	19
Total	<u>172,619</u>	<u>192,538</u>	<u>43,816</u>	<u>6,930</u>

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2020	31.12.2021	31.12.2021	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	RMB'000	US\$'000
Accelerated tax depreciation	(100,802)	(138,770)	(21,950)	(17,366)	(55,882)	(37,968)	(6,006)
Interest receivable	(1,937)	(3,396)	(537)	608	(293)	(1,459)	(231)
PRC withholding tax on dividend income ⁽ⁱ⁾	(112,456)	(65,544)	(10,367)	(30,721)	(36,255)	(14,529)	(2,298)
Impairment of property, plant and equipment	6,210	5,138	812	(9,295)	(438)	(1,072)	(170)
Effect of change in residual value of property, plant and equipment	33,894	60,230	9,527	—	33,894	26,336	4,166
Write-down of inventories	22,628	20,250	3,203	2,343	4,225	(2,378)	(376)
Allowance for doubtful account receivables	8,056	6,789	1,074	4,900	(2,021)	(1,267)	(200)
Accruals	298,766	283,427	44,830	46,108	48,149	(15,339)	(2,426)
Deferred income	108,942	97,828	15,474	12,232	1,211	(11,114)	(1,758)
Losses available for offsetting against future taxable income	—	23,072	3,650	—	—	23,072	3,650
Others	24,441	43,606	6,897	5,465	(4,998)	19,235	3,042
Deferred tax benefits/(expenses)				<u>14,274</u>	<u>(12,408)</u>	<u>(16,483)</u>	<u>(2,607)</u>
Net deferred tax assets	<u>287,742</u>	<u>332,630</u>	<u>52,613</u>				
Reflected in the consolidated statement of financial position as follows:							
Deferred tax assets	400,198	398,174	62,980				
Deferred tax liabilities	(112,456)	(65,544)	(10,367)				
	<u>287,742</u>	<u>332,630</u>	<u>52,613</u>				

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8. Income tax expense (cont'd)

Deferred tax (cont'd)

Note:

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
At January 1	(106,922)	(112,456)	(17,787)
Provision made to consolidated statement of profit or loss	(36,255)	(14,529)	(2,298)
Utilization	<u>30,721</u>	<u>61,441</u>	<u>9,718</u>
December 31	<u>(112,456)</u>	<u>(65,544)</u>	<u>(10,367)</u>

The Corporate Income Tax ("CIT") law provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profit earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes a deferred tax liability for withholding tax payable for profits accumulated after December 31, 2007 for the

earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. As of December 31, 2021, the deferred tax liability for withholding tax payable was RMB 65.5 million (US\$ 10.4 million) (2020: RMB 112.5 million). The amount of unrecognized deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 195.5 million (US\$ 30.9 million) (2020: RMB 236.4 million).

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Unutilized tax losses	404,215	414,212	65,517
Unutilized capital allowances and investment allowances	105,622	103,810	16,420
Other unrecognized temporary differences relating to asset impairment and deferred grants	204,423	199,203	31,508
	<u>714,260</u>	<u>717,225</u>	<u>113,445</u>

Unrecognized tax losses for the Group are subject to agreement with the tax authorities and compliance with tax regulations in the respective countries in which the Group operates. The unutilized tax losses for PRC subsidiaries and Malaysia subsidiaries expire within the next 5 to 10 years and 10 years, respectively. These losses may not be used to offset taxable income elsewhere in the Group. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilize the benefits.

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9. Earnings per share

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

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

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Profit attributable to ordinary equity holders of the company	604,914	548,903	272,673	43,129
Weighted average number of ordinary shares	<u>40,858,290</u>	<u>40,858,290</u>	<u>40,858,290</u>	<u>40,858,290</u>

Diluted earnings per share

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

	31.12.2019	31.12.2020	31.12.2021
Weighted average number of shares issued, used in the calculation of basic earnings per share	40,858,290	40,858,290	40,858,290
Diluted effect of share options	—	—	—
Weighted average number of ordinary shares adjusted for effect of dilution	<u>40,858,290</u>	<u>40,858,290</u>	<u>40,858,290</u>

In 2021, 270,000 (2020: 470,000; 2019: 470,000) share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary share since the reporting date and before the completion of these financial statements.

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China Yuchai International Limited

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10. Property, plant and equipment

	Freehold land RMB'000	Leasehold buildings and improvements RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Office furniture, fittings and equipment RMB'000	Motor and transport vehicles RMB'000	Total RMB'000
Cost							
At January 1, 2020	14,836	2,376,090	1,037,035	5,285,022	195,154	112,501	9,020,638
Additions	—	16,273	487,725	20,617	14,066	16,166	554,847
Disposals	—	(4,664)	—	(260,996)	(3,604)	(4,742)	(274,006)
Transfers	—	75,264	(823,981)	741,218	7,323	176	—
Write-off	—	(9,759)	—	(53,917)	(8,983)	(912)	(73,571)
Translation difference	(744)	(3,825)	(63)	(459)	(866)	(131)	(6,088)
At December 31, 2020 and January 1, 2021	14,092	2,449,379	700,716	5,731,485	203,090	123,058	9,221,820
Additions	—	2,214	426,621	20,655	16,803	12,598	478,891
Disposals	—	(5,435)	—	(81,321)	(1,896)	(13,860)	(102,512)
Transfers	—	105,117	(721,753)	603,595	13,041	—	—
Write-off	—	(1,551)	—	(48,990)	(7,416)	(2,591)	(60,548)
Translation difference	(628)	(3,439)	(154)	(522)	(1,242)	(36)	(6,021)
At December 31, 2021	13,464	2,546,285	405,430	6,224,902	222,380	119,169	9,531,630
Accumulated depreciation and impairment							
At January 1, 2020	513	848,803	—	3,739,750	151,710	69,418	4,810,194
Charge for the year	—	92,034	—	357,434	19,913	8,939	478,320*
Disposals	—	(1,102)	—	(253,121)	(3,218)	(4,058)	(261,499)
Write-off	—	(4,660)	—	(51,910)	(8,719)	(865)	(66,154)
Impairment loss	—	—	—	3,920	—	—	3,920
Translation difference	(26)	(685)	—	(269)	(651)	(90)	(1,721)
At December 31, 2020 and January 1, 2021	487	934,390	—	3,795,804	159,035	73,344	4,963,060
Charge for the year	—	93,397	—	394,171	19,579	12,371	519,518*
Disposals	—	(2,119)	—	(78,917)	(1,688)	(12,109)	(94,833)
Write-off	—	(1,432)	—	(48,366)	(7,280)	(2,336)	(59,414)
Impairment loss	—	—	—	7,227	—	—	7,227
Translation difference	(30)	(780)	—	(277)	(716)	(34)	(1,837)
At December 31, 2021	457	1,023,456	—	4,069,642	168,930	71,236	5,333,721
Net book value							
At December 31, 2020	13,605	1,514,989	700,716	1,935,681	44,055	49,714	4,258,760
At December 31, 2021	13,007	1,522,829	405,430	2,155,260	53,450	47,933	4,197,909
US\$'000	2,057	240,870	64,128	340,904	8,454	7,582	663,995

* In 2021, RMB 26.1 million (US\$ 4.1 million) (2020: RMB 28.2 million) were capitalized as development costs. In 2021, RMB 0.6 million (US\$ 0.1 million) (2020: RMB Nil) were capitalized as capitalized contract cost.

An impairment loss of RMB 7.2 million (US\$ 1.1 million) (2020: RMB 3.9 million; 2019: RMB 4.0 million) was charged to the consolidated statement of profit or loss under “Cost of sales” for the Group’s plant and equipment within the Yuchai segment. The impairment loss was due to assets that were not in use.

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11. Investment property

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Cost			
At January 1	34,940	33,187	5,249
Translation difference	(1,753)	(1,377)	(218)
At December 31	<u>33,187</u>	<u>31,810</u>	<u>5,031</u>
Accumulated depreciation			
At January 1	28,388	27,358	4,327
Charge for the year	376	355	56
Translation difference	(1,406)	(989)	(156)
At December 31	<u>27,358</u>	<u>26,724</u>	<u>4,227</u>
Net carrying amount	<u>5,829</u>	<u>5,086</u>	<u>804</u>
Fair value	<u>11,954</u>	<u>11,308</u>	<u>1,789</u>
Consolidated statements of profit or loss:			
Rental income from an investment property	230	77	12
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	<u>(180)</u>	<u>(82)</u>	<u>(13)</u>

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

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

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

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2021	Market comparison and cost method	Comparable price: - RMB 165 to RMB 401 (US\$ 26 to US\$ 63) per square foot	The estimated fair value increases with higher comparable price
2020	Market comparison and cost method	Comparable price: - RMB 172 to RMB 418 (US\$ 27 to US\$ 65) per square foot	The estimated fair value increases with higher comparable price

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Notes to the Consolidated Financial Statements

12. Intangible assets

	Goodwill RMB'000	Technology Know-how RMB'000	Development costs RMB'000	Trademarks RMB'000	Total RMB'000
Cost					
At January 1, 2020	218,311	136,822	562,587	169,811	1,087,531
Addition	—	—	530,836	—	530,836
At December 31, 2020 and January 1, 2021	218,311	136,822	1,093,423	169,811	1,618,367
Addition	—	—	313,571	—	313,571
Transfer	—	414,704	(414,704)	—	—
At December 31, 2021	218,311	551,526	992,290	169,811	1,931,938
Accumulated amortization and impairment					
At January 1, 2020	5,675	127,712	—	—	133,387
Amortization	—	1,012	—	—	1,012
At December 31, 2020 and January 1, 2021	5,675	128,724	—	—	134,399
Amortization	—	38,957	—	—	38,957
At December 31, 2021	5,675	167,681	—	—	173,356
Net carrying amount					
At December 31, 2020	212,636	8,098	1,093,423	169,811	1,483,968
At December 31, 2021	212,636	383,845	992,290	169,811	1,758,582
US\$'000	33,633	60,714	156,953	26,860	278,160

Goodwill

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

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

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

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Yuchai	212,636	212,636	33,633

Yuchai unit

The Group performs its impairment test annually. The recoverable amount of the unit was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. The business of Yuchai is stable since the Group has control in 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections was 12.54% (2020: 12.37%) and cash flows beyond the ten-year period are extrapolated using a 5% growth rate (2020: 6%) that is the same as the long-term average growth rate for PRC. No impairment was identified for this unit.

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Notes to the Consolidated Financial Statements

12. Intangible assets (cont'd)

Goodwill (cont'd)

Key assumptions used for value in use calculations

Key assumptions used in estimation of value in use were as follows:

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

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

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

Growth rate estimate – Growth rate is based on management's estimate with reference to general available indication of long-term gross domestic product growth rate of China. The long-term rates used to extrapolate the budget for Yuchai are 5% and 6.0% for 2021 and 2020 respectively.

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 15.21% (2020: 13.99%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 14.03% (2020: 13.58%) in the Yuchai unit would result in impairment.

Growth rate assumptions – Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 1.53% (2020: 3.60%) in the long-term growth rate in Yuchai unit would result in impairment.

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

Technology know-how

At December 31, 2020, The Group has an intangible asset representing technology development costs with carrying amount of RMB 8.1 million, which is the technology know-how that relates to production of 4Y20 engines. As of December 31, 2020, the accumulated impairment loss charged on this Technology Know-how was RMB 126.7 million.

In late 2018, the Group had commenced the production of 4Y20 engines. In 2019, 2020 and 2021, management believed that there was no indicator for further impairment, and also considered there was no significant changes to the market and economic environment which will have a favourable effect to the recoverable amount of the intangible asset. Management concluded that no reversal of impairment was necessary in 2019, 2020 and 2021.

In 2021, the development of certain engine platform relating to National VI engines were completed, and the related development costs amounting to RMB 414.7 million (US\$ 65.6 million) were transferred from development costs to Technology Know-how, and amortization were charged accordingly based on the Group's policy.

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Notes to the Consolidated Financial Statements

12. Intangible assets (cont'd)

Development costs

During 2020 and 2021, the Group has capitalized development costs of RMB 530.8 million and RMB 313.6 million (US\$ 49.6 million), respectively, for new engines that comply with National VI and Tier 4 emission standards. As of December 31, 2021, the total capitalized development costs are RMB 992.3 million (US\$ 157.0 million). These development costs relate to on-going development efforts and, accordingly, have not yet been available for use, and therefore no amortization charges were recorded.

In 2020 and 2021, the Group performs an impairment test on the development costs that are not available for use. No impairment has been identified. The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. Both the 2020 and 2021, the Group used 8 years forecast and were based on the updated financial budgets approved by the senior management with no terminal value.

Key assumptions used in estimation of value in use were as follows:

- Profit from operation – Profit from operation is based on management’s estimate with reference to historical revenue generated, growth rate and estimation of future business outlook. In 2021, the Group used a 8 years business plan, the revenue growth rate is estimated at an average around 12% year-on-year from 2022 to 2025 due to the implementation of new emission standard and government encouragement of consumption of new energy products, decrease to 5% in 2026 and thereafter management assumed no revenue growth from 2026 to 2029. In 2020, the business plan projected 8 years, the revenue growth rate is estimated at around 10% year-on-year from 2021 to 2023 and decrease to 5% in 2024 and 2025. Management assumed no revenue growth from 2026 to 2028 after reaching the commercial deployment of technology.
- Discount rate – Discount rate reflects management’s estimate of the risks specific to the cash-generating unit and is estimated based on weighted average cost of capital (“WACC”). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors. The cost of debt is based on the interest-bearing borrowings the cash-generating unit is obliged to service. This rate is weighted according to the optimal debt/equity structure arrived on the basis of the capitalization structure of the peer group. The Group has applied a pre-tax discount rate of 12.54% (2020: 12.37%).

Sensitivity to changes in assumptions

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

Profit from operation – A decreased demand can lead to a decline in profit from operation. A decrease in demand by 13.86% (2020: 25.94%) would result in impairment.

Discount rate – A rise in pre-tax discount rate to 15.69% (2020: 20.05%) would result in impairment.

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

Trademarks

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

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

In 2020 and 2021, the Group performed an annual impairment review by taking Yuchai as a cash-generating unit. Using the same cash flow projection and assumptions for goodwill impairment test disclosed above, management concluded that no impairment charge is to be recognized in 2020 and 2021.

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13. Inventories

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Raw materials	1,940,119	2,111,881	334,042
Work in progress	33,211	25,169	3,981
Finished goods	2,497,865	3,071,586	485,841
Total inventories at the lower of cost and net realizable value	4,471,195	5,208,636	823,864

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Inventories recognized as an expense in cost of sales	13,167,181	15,501,807	16,457,476	2,603,125
Inclusive of the following charge/(credit):				
- Inventories written down	31,810	82,386	32,813	5,190
- Reversal of write-down of inventories	(14,788)	(54,408)	(41,823)	(6,615)
- Inventories written off	—	—	10,085	1,595

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

14. Other current assets

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Current			
Development properties	16,906	16,167	2,557
Quoted equity securities ⁽ⁱ⁾	6,258	606	96
	<u>23,164</u>	<u>16,773</u>	<u>2,653</u>

Note:

- ⁽ⁱ⁾ The quoted equity securities are listed on the Singapore Exchange. In 2021, the Group has disposed some of the quoted equity securities for consideration of RMB 6.5 million (US\$ 1.0 million) (2020: RMB 1.4 million) and recognized a gain on disposal of RMB 5.4 million (US\$ 0.9 million) (2020: RMB 0.9 million) in consolidated statement of profit or loss under "Other operating income".

China Yuchai International Limited

Notes to the Consolidated Financial Statements

15. Trade and other receivables

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Trade receivables, gross	332,567	557,767	88,224
Less: Allowance for expected credit losses	(43,519)	(33,210)	(5,253)
Net trade receivables (Note 6.2)	289,048	524,557	82,971
Bills receivable ⁽ⁱ⁾	7,793,343	6,437,100	1,018,174
Total (Note 34)	<u>8,082,391</u>	<u>6,961,657</u>	<u>1,101,145</u>
Amounts receivable:			
- associates and joint ventures (trade)	1,266	243	38
- associates and joint ventures (non-trade)	11,119	11,959	1,892
- related parties (trade)	9,663	70,594	11,166
- related parties (non-trade)	2,992	459	73
Bills receivable in transit	12,620	22,360	3,537
Interest receivables	4,999	11,788	1,865
Staff advances	3,326	5,578	882
Others	36,951	24,085	3,810
Less: Impairment losses – other receivables ⁽ⁱⁱ⁾	(6,741)	(6,231)	(986)
Other receivables carried at amortized cost (Note 34)	76,195	140,835	22,277
Tax recoverable	236,400	328,369	51,939
Prepayments	64,102	66,474	10,514
Right of return assets	—	40,761	6,447
Net other receivables	<u>376,697</u>	<u>576,439</u>	<u>91,177</u>
Total trade and other receivables	<u>8,459,088</u>	<u>7,538,096</u>	<u>1,192,322</u>

Note:

⁽ⁱ⁾ As of December 31, 2021, bills receivable includes bills received from joint ventures and related parties amounted to RMB 0.7 million (US\$ 0.1 million) (2020: RMB Nil) and RMB 523.5 million (US\$ 82.8 million) (2020: RMB 1,014.1 million) respectively.

As of December 31, 2020 and 2021, bills receivable amounted to RMB 13.4 million (US\$ 2.1 million) (2020: RMB Nil) was pledged to secure bank facilities.

⁽ⁱⁱ⁾ This comprised impairment loss on bills receivable in transit of RMB 6.0 million (US\$ 0.9 million) as of December 31, 2021 (2020: RMB 6.5 million). This impairment loss was charged to the consolidated statement of profit or loss under “Selling, general and administrative expenses”.

Trade receivables are non-interest bearing and are generally on 60-90 days' term. They are recognized at their original invoice amounts which represent their fair values on initial recognition.

Non-trade balance from associates, joint ventures and other related parties are unsecured, interest-free, and repayable on demand.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

15. Trade and other receivables (cont'd)

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
At January 1	62,854	50,260	7,950
Credit to consolidated statement of profit or loss (under "Selling, general and administrative expenses")	(12,349)	(8,525)	(1,348)
Written off	(242)	(2,278)	(360)
Translation difference	(3)	(16)	(3)
At December 31	<u>50,260</u>	<u>39,441</u>	<u>6,239</u>

As of December 31, 2020 and 2021, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totaled RMB 2,225.1 million and RMB 79.1 million (US\$ 12.5 million) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2020 and 2021, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 1,834.5 million and RMB 2,550.0 million (US\$ 403.3 million) respectively.

As of December 31, 2020 and 2021, trade receivables due from a major customer group, Dongfeng Automobile Co., Ltd. and its affiliates (the "Dongfeng companies") were RMB 17.6 million and RMB 65.7 million (US\$ 10.4 million), respectively. See Note 31 for further discussion of customer concentration risk.

For terms and conditions relating to related parties, refer to Note 28.

16. Cash and cash equivalents

Long-term bank deposits

Short-term bank deposits

Restricted cash

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Non-current			
Long-term bank deposits ⁽ⁱ⁾	<u>140,000</u>	<u>110,000</u>	<u>17,399</u>
Current			
Cash and cash equivalents	5,877,647	4,788,219	757,366
Short-term bank deposits ⁽ⁱⁱ⁾	258,756	357,335	56,521
Restricted cash	171,135	76,001	12,021
	<u>6,307,538</u>	<u>5,221,555</u>	<u>825,908</u>
Cash and bank balances	<u>6,447,538</u>	<u>5,331,555</u>	<u>843,307</u>

Note:

⁽ⁱ⁾ In 2021, YMMC has placed new three-year time deposits of RMB 20.0 million (US\$ 3.2 million) (2020: RMB 90.0 million) at annual interest rate of 3.85% (2020: range from 3.85% to 3.99%) with certain banks. These long-term deposits are not considered to be cash equivalents.

As at December 31, 2021, the three-year time deposits placed in 2019 has remaining maturity period of less than 12 months. Accordingly, this has been classified as short-term bank deposits in 2021.

⁽ⁱⁱ⁾ Short-term bank deposits relate to bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity. The interest rate of these bank deposits as of December 31, 2021 for the Group ranged from 0.30% to 1.65% (2020: 0.23% to 2.25%). These short-term bank deposits are not considered as cash equivalents.

China Yuchai International Limited**Notes to the Consolidated Financial Statements****16. Cash and cash equivalents****Long-term bank deposits****Short-term bank deposits****Restricted cash (cont'd)**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rate of the bank deposits (excluding long-term and short-term bank deposits) as of December 31, 2021 for the Group ranged from 0.13% to 1.55% (2020: 0.10% to 1.55%).

As at December 31, 2021, there is fixed deposits of RMB 140.3 million (US\$ 22.2 million) held with a related party (2020: RMB 130.8 million).

As of December 31, 2021, the Group's restricted cash of RMB 76.0 million (US\$ 12.0 million) (2020: RMB 171.1 million) was used as collateral by the banks for the issuance of bills to suppliers.

As of December 31, 2020 and 2021, the Group had RMB 491.9 million and RMB 474.2 million (US\$ 75.0 million) respectively, of undrawn borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2019, 2020 and 2021 were RMB 0.2 million, less than RMB 0.1 million and RMB Nil (US\$ Nil) respectively.

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Cash at banks and on hand	5,466,288	4,218,131	667,194
Short-term bank deposits ⁽ⁱ⁾	411,359	570,088	90,172
Cash and cash equivalents	<u>5,877,647</u>	<u>4,788,219</u>	<u>757,366</u>

Note:

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

17. Leases**Group as a lessee**

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

17. Leases (cont'd)

Group as a lessee (cont'd)

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

	Leasehold land RMB'000	Building and office space RMB'000	Office furniture, fittings and equipment RMB'000	Total RMB'000	Total US\$'000
At January 1, 2020	353,807	61,556	21	415,384	65,702
Addition	2,058	13,198	—	15,256	2,413
Depreciation expenses	(14,102)	(29,182)	(14)	(43,298)	(6,848)
Disposal	(3,198)	—	—	(3,198)	(506)
Translation difference	—	(142)	(1)	(143)	(22)
At December 31, 2020 and January 1, 2021	338,565	45,430	6	384,001	60,739
Addition	1,355	22,558	58	23,971	3,792
Depreciation expenses	(13,655)	(27,790)	(13)	(41,458)	(6,558)
Disposal	(21,620)	—	—	(21,620)	(3,420)
Translation difference	—	(80)	—	(80)	(13)
At December 31, 2021	<u>304,645</u>	<u>40,118</u>	<u>51</u>	<u>344,814</u>	<u>54,540</u>

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

	2020 RMB'000	2021 RMB'000	2021 US\$'000
At January 1	60,007	39,778	6,291
Additions	15,256	23,971	3,792
Accretion of interest (Note 7.3)	2,198	1,819	288
Payments	(37,561)	(24,940)	(3,945)
Translation difference	(122)	(97)	(16)
At December 31	<u>39,778</u>	<u>40,531</u>	<u>6,410</u>
Current (Note 25)	22,755	27,125	4,290
Non-current (Note 25)	17,023	13,406	2,120
Total	<u>39,778</u>	<u>40,531</u>	<u>6,410</u>

The maturity analysis of lease liabilities is disclosed in Note 25.

China Yuchai International Limited**Notes to the Consolidated Financial Statements****17. Leases (cont'd)****Group as a lessee (cont'd)**

The following are the amounts recognized in profit of loss:

	2020 RMB'000	2021 RMB'000	2021 US\$'000
Depreciation charge for right-of-use assets	43,127	41,458	6,558
Interest expenses on lease liabilities (Note 7.3)	2,198	1,819	288
Expenses relating to short-term leases (included in selling, general and administrative expenses and research and development expenses)	14,313	27,686	4,379
Total amount recognized in profit or loss	59,638	70,963	11,225

In 2021, the Group had total cash outflows for leases of RMB 52.6 million (US\$ 8.3 million) (2020: RMB 51.9 million). The Group also had non-cash additions to right-of-use assets and lease liabilities of RMB 24.0 million (US\$ 3.8 million) in 2021 (2020: RMB 15.3 million). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 29.

Group as a lessor

The Group has entered into operating leases on some of its assets, including surplus offices and warehouses. These leases have terms between 1 to 15 years. Rental income recognized by the Group during the year is RMB 15.2 million (US\$ 2.4 million) (2020: RMB 13.3 million).

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

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Within 1 year			
- related parties	902	598	95
- joint venture	2,590	1,425	225
- third parties	5,058	5,573	882
After 1 year but within 5 years			
- related parties	—	2,358	373
- joint venture	10,720	5,698	901
- third parties	13,305	7,240	1,145
More than 5 years			
- joint venture	14,141	10,566	1,671
- third parties	4,392	4,272	676
	51,108	37,730	5,968

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18. Issued capital

	31.12.2020 thousands	31.12.2021 thousands
Issued capital		
Authorized shares		
Ordinary share of par value US\$ 0.10 each	100,000	100,000
	Number of shares	RMB'000
Ordinary shares issued and fully paid		
At January 1, 2020, December 31, 2020 and December 31, 2021	40,858,290	2,081,138
US\$'000		329,179
	31.12.2020 RMB'000	31.12.2021 RMB'000
		31.12.2021 US\$'000
Special share issued and fully paid		
One special share issued and fully paid at US\$ 0.10 per share	*	*

* Less than RMB 1 (US\$ 1)

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

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

19. Dividends declared and paid

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2021: US\$ 1.70 per share (2020: US\$ 0.85 per share)	245,871	448,712	70,974
Dividend paid in cash	245,871	448,712	70,974

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20. Reserves

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Statutory reserve			
Statutory general reserve ⁽ⁱ⁾			
At January 1	278,601	281,459	44,519
Transfer from retained earnings	2,858	2,072	328
At December 31	<u>281,459</u>	<u>283,531</u>	<u>44,847</u>
General surplus reserve ⁽ⁱⁱ⁾			
At January 1 and December 31	25,706	25,706	4,066
Total	<u>307,165</u>	<u>309,237</u>	<u>48,913</u>
Capital reserves ⁽ⁱⁱⁱ⁾			
At January 1 and December 31	<u>30,704</u>	<u>30,704</u>	<u>4,857</u>

Note:

- (i) In accordance with the relevant regulations in the PRC, a 10% appropriation to the statutory general reserve based on the net income reported in the PRC financial statements is required until the balance reaches 50% of the authorized share capital of Yuchai and its subsidiaries. Statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the authorized share capital.
- (ii) General surplus reserve is appropriated in accordance with Yuchai's Articles and resolution of the board of directors. General surplus reserve may be used to offset accumulated losses or increase the registered capital.
- (iii) Capital reserves pertain to a capital transaction in 2015.

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Other components of equity			
Foreign currency translation reserve ⁽ⁱ⁾	(89,925)	(118,176)	(18,692)
Performance shares reserve ⁽ⁱⁱ⁾	19,758	19,758	3,125
Premium paid for acquisition of non-controlling interests	(11,472)	(11,472)	(1,814)
Fair value reserve of financial assets at FVOCI ⁽ⁱⁱⁱ⁾	(79,720)	(30,902)	(4,888)
Total	<u>(161,359)</u>	<u>(140,792)</u>	<u>(22,269)</u>

Note:

- (i) Foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.
- (ii) Performance shares reserve comprises the cumulative value of employee services received in return for share-based compensation. The amount in the reserve is retained when the option is expired.
- (iii) Fair value reserve of financial assets at FVOCI relates to the subsequent measurement of the Group's bills receivable at fair value through OCI.

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Notes to the Consolidated Financial Statements

21. Share-based payment

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

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

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

In 2021, there was no expense arising from equity-settled share-based payment transactions. (2019: Nil; 2020: Nil).

Movements during the year

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

	Number of share options 31.12.2020	WAEP 31.12.2020	Number of share options 31.12.2021	WAEP 31.12.2021
Outstanding at January 1	470,000	US\$ 21.11	470,000	US\$ 21.11
Cancelled during the year	—	—	(200,000)	US\$ 21.11
Outstanding at December 31	<u>470,000</u>	US\$ 21.11	<u>270,000</u>	US\$ 21.11
Exercisable at December 31	<u>470,000</u>	US\$ 21.11	<u>270,000</u>	US\$ 21.11

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

Fair value of share options and assumptions

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

The exercise price for options outstanding as of December 31, 2021 was US\$ 21.11 dollar (2020: US\$ 21.11 dollar).

The weighted average remaining contractual life for the share options outstanding as of December 31, 2021 was 2.6 (2020: 3.6) years.

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

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

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Notes to the Consolidated Financial Statements

22. Trade and other payables

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Current			
Trade payables	3,406,398	3,884,812	614,472
Bills payables ⁽ⁱ⁾	3,348,163	3,085,206	487,996
Other payables	533,705	423,787	67,032
Accrued expenses	233,053	167,575	26,506
Accrued staff costs	714,701	689,327	109,033
Refund liabilities	1,031,562	913,756	144,531
Dividend payable	49,468	29,304	4,635
Amount due to:			
- associates and joint ventures (trade)	467,351	176,819	27,968
- associates and joint ventures (non-trade)	205	27	4
- related parties (trade)	238,622	214,980	34,004
- related parties (non-trade)	1,841	1,308	207
Financial liabilities carried at amortized cost (Note 31, Note 34)	10,025,069	9,586,901	1,516,388
Deferred grants (Note 27)	23,468	12,482	1,974
Advance from customers	320	316	50
Other tax payable	62,111	39,416	6,234
Total trade and other payables (current)	<u>10,110,968</u>	<u>9,639,115</u>	<u>1,524,646</u>

⁽ⁱ⁾ As of December 31, 2021, the bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 28.4 million (US\$ 4.5 million) (2020: RMB 105.6 million), RMB 5.4 million (US\$ 0.9 million) (2020: RMB 12.9 million) and RMB 237.6 million (US\$ 37.6 million) (2020: RMB 249.0 million) respectively.

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Non-current			
Other payables ⁽ⁱ⁾ (Note 31, Note 34)	<u>191,563</u>	<u>188,725</u>	<u>29,851</u>

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

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60 - 90 day terms.
- Other payables (current) are non-interest bearing and have an average term of three months.
- For terms and conditions relating to related parties, refer to Note 28.

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23. Provision

	Provision for warranty RMB'000	Provision for onerous contract RMB'000	Total RMB'000	Total US\$'000
At January 1, 2020	215,715	2,316	218,031	34,487
Provision made	335,664	13,639	349,303	55,250
Provision utilized	(295,940)	—	(295,940)	(46,810)
Provision reversed	—	(2,316)	(2,316)	(366)
At December 31, 2020 and January 1, 2021	255,439	13,639	269,078	42,561
Provision made	292,157	4,829	296,986	46,975
Provision utilized	(299,397)	—	(299,397)	(47,357)
Provision reversed	—	(13,639)	(13,639)	(2,157)
At December 31, 2021	248,199	4,829	253,028	40,022

24. Contract liabilities

	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Unfulfilled service-type maintenance services	179,723	209,773	33,180
Advance from customer	755,739	432,659	68,435
Total	935,462	642,432	101,615
Current	868,193	573,259	90,674
Non-current	67,269	69,173	10,941
Total contract liabilities (Note 6.2)	935,462	642,432	101,615

25. Lease liabilities

	Effective interest rate %	Maturity	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Current (Note 17)	1.25% - 6.20%	2021	22,755	27,125	4,290
Non-current (Note 17)	1.25% - 6.20%	2022-2026	17,023	13,406	2,120

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26. Loans and borrowings

	Effective interest rate %	Maturity	31.12.2020 RMB'000	
Current				
Renminbi denominated loans	1.80 – 4.05	2021	<u>1,730,000</u>	
Non-current				
Renminbi denominated loans	3.30	2022	<u>500,000</u>	
	Effective interest rate %	Maturity	31.12.2021 RMB'000	31.12.2021 US\$'000
Current				
Renminbi denominated loans	1.10 – 3.85	2022	<u>2,103,000</u>	<u>332,637</u>
Non-current				
Renminbi denominated loans	3.45	2023	<u>100,000</u>	<u>15,817</u>

Note:

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

26. Loans and borrowings (cont'd)

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

On June 25, 2021, the Company entered into an uncommitted revolving credit facility agreement with DBS with an aggregate value of S\$ 30.0 million to refinance the S\$ 30.0 million facility that matured on June 1, 2021. Among other things, the terms of the facility required that (i) HLA retains ownership of the special share, at all-time retains at least 35% ownership of the Company and that the Company remain a consolidated subsidiary of HLA, (ii) the Company at all-time retains at least 76.4% ownership in Yuchai and (iii) HLGE remains listed on the Main Board of Singapore Exchange. The terms of the facility also included certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) not being less than US\$ 400 million, and the ratio of the consolidated total debt (as defined in the agreement) to consolidated tangible net worth not exceeding 1.0 times. This arrangement was used to finance the Group general working capital requirements.

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

On June 10, 2020, the Company entered into an uncommitted and unsecured multi-currency revolving credit facility agreement with MUFG for an aggregate value of S\$ 30.0 million to refinance the S\$ 30.0 million facility that matured on March 17, 2020. The facility is available for three years from the date of the facility agreement and will be used to finance the Company's 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 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) not being less than US\$ 120 million at all times and the ratio of the Company's total net debt (as defined in the agreement) to tangible net worth not exceeding 2.0 times at all times, as well as negative pledge provisions and customary drawdown requirements.

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

On June 24, 2020, the Company entered into an uncommitted and unsecured multi-currency short-term revolving credit facility agreement with SMBC for an aggregate value of US\$ 30.0 million to refinance the US\$ 30.0 million facility that matured on March 18, 2020. The maximum tenor of each drawdown under the facility is 6 months and will be utilized by the Company to finance its 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 subsidiary 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 of June 30 and December 31 of each year not less than US\$ 200 million and the ratio of the Company's consolidated total net debt (as defined in the agreement) to consolidated tangible net worth as of June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

China Yuchai International Limited**Notes to the Consolidated Financial Statements****27. Deferred grants**

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
At January 1	676,728	541,610	85,668
Received during the year	52,241	50,582	8,000
Grant receivable	129	—	—
Grant disbursed to partner of joint project	(48,632)	(16,270)	(2,573)
Released to consolidated statement of profit or loss	(138,856)	(151,782)	(24,008)
At December 31	<u>541,610</u>	<u>424,140</u>	<u>67,087</u>
Current (Note 22)	23,468	12,482	1,974
Non-current	518,142	411,658	65,113
	<u>541,610</u>	<u>424,140</u>	<u>67,087</u>

The government grant that have been received in PRC was to support and fund Yuchai's production facilities, research and development activities for product innovations and developments. As at December 31, 2021, RMB 247.9 million (US\$ 32.9 million) (2020: RMB 271.6 million) of the deferred grants are related to assets.

The grant receivable is related to the Job Support Scheme (the "JSS") that was introduced in Singapore in response to COVID-19 coronavirus pandemic. The JSS is temporary scheme introduced to help the enterprises retain local employees during the period of economic uncertainty. Under the JSS, employers will receive cash grants in relation to the gross monthly wages of eligible employees. In 2020 and 2021, JSS grant income amounted to RMB 1.1 million and RMB 0.3 million (less than US\$ 0.1 million) were credited to the consolidated statement of profit or loss under "Other income".

28. Related party disclosures***The ultimate parent***

As of December 31, 2021, the controlling shareholder of the Company, HLA, indirectly owned 18,270,965, or 44.7% (2020: 18,270,965, or 44.7%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.3% (2020: 23.3%) of the ordinary shares in the capital of the Company and is, and has since August 2002 been, the registered holder of the special share. HLA also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 21.4% (2020: 21.4%) of the ordinary shares in the capital of the Company. HLA is a member of the Hong Leong Investment Holdings Pte. Ltd., or Hong Leong Investment group of companies. Prior to August 2002, the Company was controlled by Diesel Machinery (BVI) Limited, which, until its dissolution, was a holding company controlled by HLC and was the prior owner of the special share. Through HLT's stock ownership and the rights accorded to the special share under Bye-Laws of the Company and various agreements among shareholders, HLA is able to effectively approve and effect most corporate transactions.

There were transactions other than dividends paid, between the Group and HLA of RMB 0.5 million (less than US\$ 0.1 million) (2020: RMB 0.03 million; 2019: RMB 0.03 million) during the financial years ended December 31, 2019, 2020 and 2021 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2021, the Yulin City Government through Coomber Investment Ltd. owned 17.2% (2020: 17.2%) of the ordinary shares in the capital of the Company.

China Yuchai International Limited**Notes to the Consolidated Financial Statements****28. Related party disclosures (cont'd)**

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

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Sales of engines and materials				
- associates and joint ventures	912,877	1,256,268	393,440	62,232
- GY Group (including its subsidiaries and affiliates)	1,792,280	2,637,845	3,223,785	509,915
Purchase of material, supplies and engines				
- associates and joint ventures	1,999,831	2,792,707	2,036,675	322,146
- GY Group (including its subsidiaries and affiliates)	1,895,239	1,245,030	1,307,137	206,754
Hospitality, restaurant, consultancy and other service income charged to				
- a joint venture	3,984	3,918	2,152	340
- GY Group (including its subsidiaries and affiliates)	15,350	6,765	6,609	1,045
Service charge charged by				
- joint ventures	—	—	5,023	795
Rental income				
- joint ventures	3,206	4,565	4,415	698
- GY Group (including its subsidiaries and affiliates)	2,133	3,970	275	43
Property management service expenses				
- GY Group (including its subsidiaries and affiliates)	22,595	24,968	21,978	3,476
Selling, general and administrative expenses				
- a joint venture	—	7,287	2,530	400
- GY Group (including its subsidiaries and affiliates)	19,953	4,728	9,315	1,473
- HLA (including its affiliates)	6,788	6,687	7,188	1,137
Delivery, storage, distribution and handling expenses				
- GY Group (including its subsidiaries and affiliates)	304,532	312,891	300,699	47,562
Payment for trademarks usage fee				
- GY Group	169,811	—	—	—
Payment for lease liabilities				
- GY Group (including its subsidiaries and affiliates)	33,594	18,086	17,215	2,723
Purchases of vehicles and machineries				
- GY Group (including its subsidiaries and affiliates)	2,817	2,838	3,460	547

China Yuchai International Limited**Notes to the Consolidated Financial Statements****28. Related party disclosures (cont'd)**

Note:

(i) The Group has adopted IFRS 16 on January 1, 2019. These leasing expenses have been recognized as right-of-use assets and lease liabilities on the consolidated statement of financial position as of December 31, 2020 and 2021.

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.

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

Compensation of key management personnel of the Group

	31.12.2019	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	RMB'000	US\$'000
Short-term employee benefits	41,606	43,178	25,289	4,000
Contribution to defined contribution plans	362	292	273	43
	<u>41,968</u>	<u>43,470</u>	<u>25,562</u>	<u>4,043</u>

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

29. Commitments and contingencies**Operating lease commitments - Group as lessee**

The Group has various lease contracts that have not yet commenced as of December 31, 2021. The future lease payments for these non-cancellable lease contracts are as follows:

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Within 1 year	321	2,769	438
After 1 year but within 5 years	1,628	2,178	345
After 5 years	71	—	—
	<u>2,020</u>	<u>4,947</u>	<u>783</u>

The Group has entered into certain lease contracts in which the lease of these assets will be commencing in 2022. The Group has disclosed these as operating lease commitments as at year end.

Capital commitments

As of December 31, 2020 and 2021, the Group had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid and not recognized amounting to RMB 450.0 million and RMB 425.2 million (US\$ 67.3 million) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 5.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

29. Commitments and contingencies (cont'd)

Investment commitments

As of December 31, 2020 and 2021, the Group has commitment of RMB 17.6 million and RMB Nil (US\$ Nil) relating to the Group's interest in joint venture, respectively.

Letter of credits

As of December 31, 2020 and 2021, Yuchai had issued irrevocable letter of credits of RMB 54.4 million and RMB 31.7 million (US\$ 5.0 million), respectively.

Product liability

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

Environmental liability

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

30. Segment information

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

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

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

Year ended December 31, 2019	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 6.1)	17,980,304	35,781	—	—	18,016,085
Results					
Interest income	158,855	5,167	13,239	—	177,261
Interest expense	(126,379)	(51)	(421)	—	(126,851)
Impairment of property, plant and equipment	(3,950)	—	—	—	(3,950)
Staff severance cost	(15,454)	—	—	—	(15,454)
Depreciation and amortization	(458,665)	(5,551)	(993)	—	(465,209)
Share of profit of associates and joint venture	18,137	897	—	—	19,034
Income tax expense	(141,330)	(527)	(41)	(30,721) ⁽¹⁾	(172,619)
Segment profit after tax	884,562	4,457	1,939	(30,258)⁽¹⁾	860,700
Total assets	22,817,479	416,397	2,120,767	(1,500,452)	23,854,191
Total liabilities	(12,127,021)	(15,575)	(31,278)	(106,932)⁽²⁾	(12,280,806)
Other disclosures					
Investment in joint ventures	271,274	2,717	—	—	273,991
Capital expenditure	917,192	1,033	55	—	918,280

China Yuchai International Limited

Notes to the Consolidated Financial Statements

30. Segment information (cont'd)

Year ended December 31, 2020	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000
Revenue					
Total external revenue (Note 6.1)	20,557,660	23,510	—	—	20,581,170
Results					
Interest income	158,569	3,538	4,863	—	166,970
Interest expense	(147,161)	(35)	(97)	—	(147,293)
Impairment of property, plant and equipment	(3,920)	—	—	—	(3,920)
Staff severance cost	(19,712)	—	—	—	(19,712)
Depreciation and amortization	(488,536)	(5,181)	(890)	—	(494,607)
Share of profit of associates and joint venture	(59,476)	506	—	—	(58,970)
Income tax expense	(156,007)	(200)	(69)	(36,262) ⁽¹⁾	(192,538)
Segment profit after tax	829,042	1,052	(17,127)	(33,641)⁽¹⁾	779,326
Total assets	25,330,625	392,096	2,075,262	(1,507,025)	26,290,958
Total liabilities	(14,328,688)	(10,346)	(15,797)	(103,417)⁽²⁾	(14,458,248)
Other disclosures					
Investment in joint ventures	223,918	3,202	—	—	227,120
Capital expenditure	550,424	4,409	14	—	554,847

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

30. Segment information (cont'd)

Year ended December 31, 2021	Yuchai RMB'000	HLGE RMB'000	Corporate RMB'000	Eliminations/ adjustment RMB'000	Consolidated financial statements RMB'000	Consolidated financial statements US\$'000
Revenue						
Total external revenue (Note 6.1)	21,254,134	11,796	—	—	21,265,930	3,363,691
Results						
Interest income	129,520	1,363	1,200	—	132,083	20,892
Interest expense	(111,747)	(19)	(26)	—	(111,792)	(17,683)
Impairment of property, plant and equipment	(7,227)	—	—	—	(7,227)	(1,143)
Staff severance cost	(11,771)	—	—	—	(11,771)	(1,862)
Depreciation and amortization	(567,465)	(5,221)	(910)	—	(573,596)	(90,728)
Share of profit of associates and joint venture	(96,658)	763	—	—	(95,895)	(15,168)
Income tax expense	(29,043)	(245)	—	(14,528) ⁽¹⁾	(43,816)	(6,930)
Segment profit after tax	443,499	(6,728)	(20,321)	(8,556)⁽¹⁾	407,894	64,517
Total assets	24,092,883	368,415	2,146,060	(1,506,672)	25,100,686	3,970,244
Total liabilities	(13,402,330)	(10,322)	(13,550)	(59,140)⁽²⁾	(13,485,342)	(2,133,012)
Other disclosures						
Investment in joint ventures	147,106	3,989	—	—	151,095	23,899
Capital expenditure	474,562	4,310	19	—	478,891	75,748

Note:

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

China Yuchai International Limited**Notes to the Consolidated Financial Statements****30. Segment information (cont'd)****Geographic information**

The geographic information for revenue from external customers is disclosed in Note 6.1.

Revenue from one customer group amounted to RMB 5,328.0 million (US\$ 842.7 million) (2020: RMB 6,018.2 million; 2019: RMB 5,205.5 million), arising from sales by Yuchai segment.

Non-current assets

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
People's Republic of China	6,268,004	6,370,404	1,007,624
Other countries	94,067	89,549	14,164
	<u>6,362,071</u>	<u>6,459,953</u>	<u>1,021,788</u>

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

31. Financial risk management objectives and policies

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as of December 31, 2020 and 2021.

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, 2021.

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank deposits and loans and borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Group are disclosed in Note 26. As certain interest rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

Interest rate sensitivity

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

If interest rate had been 50 (2020: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2021 of the Group would increase/decrease by RMB 15.4 million (US\$ 2.4 million) (2020: increase/decrease by RMB 20.9 million).

Foreign currency risk

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

Foreign currency risk (cont'd)

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

	31.12.2020				
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Renminbi RMB'000	Others RMB'000
Quoted equity securities	6,258	—	—	—	—
Trade and other receivables	620	8,624	913	305	372
Cash and bank balances	181,575	3,829	45,203	—	15,086
Financial liabilities	(1,462)	—	—	—	—
Trade and other payables	(6,184)	(9,356)	(10,858)	(2,464)	—
Net assets/(liabilities)	<u>180,807</u>	<u>3,097</u>	<u>35,258</u>	<u>(2,159)</u>	<u>15,458</u>

	31.12.2021			
	Singapore Dollar RMB'000	Euro RMB'000	US Dollar RMB'000	Others RMB'000
Quoted equity securities	606	—	—	—
Trade and other receivables	676	8,806	297	—
Cash and bank balances	164,544	2,535	4,345	14,342
Financial liabilities	(1,428)	—	—	—
Trade and other payables	(4,551)	(8,997)	(3,651)	(510)
Net assets/(liabilities)	<u>159,847</u>	<u>2,344</u>	<u>991</u>	<u>13,832</u>
US\$'000	<u>25,283</u>	<u>371</u>	<u>157</u>	<u>2,188</u>

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2020 RMB'000	31.12.2021 RMB'000	31.12.2021 US\$'000
Singapore Dollar	18,081	15,985	2,528
Euro	310	234	37
US Dollar	3,526	99	16
Renminbi	<u>(216)</u>	<u>—</u>	<u>—</u>

China Yuchai International Limited**Notes to the Consolidated Financial Statements****31. Financial risk management objectives and policies (cont'd)*****Equity price risk***

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

Equity price risk sensitivity

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Statement of profit or loss	<u>626</u>	<u>61</u>	<u>10</u>

Credit risk

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

Trade receivables

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

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

An impairment analysis is performed at each reporting date using a provision matrix. The provision rates are determined based on days past due for groupings of various customer segments with similar loss patterns (i.e. by profiles of the customers). The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off at management’s discretion after assessment and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 15. The Group’s share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 5.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

Credit risk (cont'd)

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

As of December 31, 2020	Trade receivables					
	Total	Current	Days past due			
			0 – 90 days	91-180 days	181-365 days	>365 days
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected credit loss rate	13.1%	—	4.2%	4.9%	7.8%	72.8%
Estimated total gross carrying amount at default	332,567	126,706	91,233	29,675	36,413	48,540
Expected credit loss	43,519	—	3,860	1,451	2,852	35,356

As of December 31, 2021	Trade receivables					
	Total	Current	Days past due			
			0 – 90 days	91-180 days	181-365 days	>365 days
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected credit loss rate	6.0%	—	0.6%	5.9%	13.2%	56.6%
Estimated total gross carrying amount at default	557,767	279,402	154,494	37,756	43,084	43,031
Expected credit loss	33,210	—	916	2,234	5,707	24,355

At December 31, 2021, the Group had top 20 customers (2020: top 20 customers) that owed the Group more than RMB 398.5 million (US\$ 63.0 million) (2020: RMB 125.5 million) and accounted for approximately 63.4% (2020: 37.7%) of trade receivables (excluding bills receivables) respectively. These customers are located in the PRC. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 15. The Group's share of bills receivables of a joint venture which was used as collateral as security is disclosed in Note 5.

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

31. 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.

	1 year or less	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2020				
Financial assets				
Trade and bills receivables	8,082,391	—	—	8,082,391
Other receivables, excluding tax recoverable	76,195	—	—	76,195
Cash and bank balances	6,307,538	140,000	—	6,447,538
Quoted equity securities	6,258	—	—	6,258
	<u>14,472,382</u>	<u>140,000</u>	<u>—</u>	<u>14,612,382</u>
Financial liabilities				
Loans and borrowings	1,753,142	524,275	—	2,277,417
Trade and other payables (Note 22)	10,025,069	191,563	—	10,216,632
Lease liabilities	24,313	22,761	325	47,399
	<u>11,802,524</u>	<u>738,599</u>	<u>325</u>	<u>12,541,448</u>

	1 year or less	2 to 5 years	Total	Total
	RMB'000	RMB'000	RMB'000	US\$'000
As of December 31, 2021				
Financial assets				
Trade and bills receivables	6,961,657	—	6,961,657	1,101,145
Other receivables, excluding tax recoverable	140,835	—	140,835	22,277
Cash and bank balances	5,221,555	110,000	5,331,555	843,307
Quoted equity securities	606	—	606	96
	<u>12,324,653</u>	<u>110,000</u>	<u>12,434,653</u>	<u>1,966,825</u>
Financial liabilities				
Loans and borrowings	2,130,356	101,524	2,231,880	353,023
Trade and other payables (Note 22)	9,586,901	188,725	9,775,626	1,546,238
Lease liabilities	28,121	13,650	41,771	6,607
	<u>11,745,378</u>	<u>303,899</u>	<u>12,049,277</u>	<u>1,905,868</u>

China Yuchai International Limited**Notes to the Consolidated Financial Statements****32. Capital management**

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

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

	31.12.2020	31.12.2021	31.12.2021
	RMB'000	RMB'000	US\$'000
Loans and borrowings (current and non-current) (Note 26)	2,230,000	2,203,000	348,454
Lease liabilities (current and non-current) (Note 25)	39,778	40,531	6,410
Trade and other payables (current and non-current) (Note 22)	10,302,531	9,827,840	1,554,497
Less: Cash and bank balances (Note 16)	<u>(6,447,538)</u>	<u>(5,331,555)</u>	<u>(843,307)</u>
Net debts	6,124,771	6,739,816	1,066,054
Equity attributable to equity holders of the company	<u>9,014,624</u>	<u>8,859,152</u>	<u>1,401,277</u>
Total capital and net debts	<u>15,139,395</u>	<u>15,598,968</u>	<u>2,467,331</u>

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, 2020 and 2021.

As disclosed in Note 20, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2020 and 2021.

China Yuchai International Limited

Notes to the Consolidated Financial Statements

33. Fair value measurement

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as of December 31, 2020:

	Date of valuation	Fair value measurement using		
		Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value				
Quoted equity securities:				
Quoted equity shares – TCL (Note 14)	December 31, 2020	6,258	6,258	—
Debt instruments (ii):				
Bills receivable	December 31, 2020	<u>7,793,343</u>	<u>—</u>	<u>7,793,343</u>

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as of December 31, 2021:

	Date of valuation	Fair value measurement using			
		Total US\$'000	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000
Assets measured at fair value					
Quoted equity securities:					
Quoted equity shares – TCL (Note 14)	December 31, 2021	96	606	606	—
Debt financial assets (ii):					
Bills receivable	December 31, 2021	<u>528,110</u>	<u>3,338,816</u>	<u>—</u>	<u>3,338,816</u>

Note:

- (i) Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.
- (ii) The fair values of the Group's debt financial assets at fair value through OCI were measured using the discounted cash flows model. The model incorporates market observable input including the interest rate of similar instruments.

There have been no transfers between Level 1 and Level 2 during 2021 and 2020.

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Notes to the Consolidated Financial Statements

34. Financial assets and financial liabilities

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
As of December 31, 2020						
Financial assets						
Quoted equity securities	14	6,258	—	—	—	6,258
Trade and bills receivable	15	—	289,048	7,793,343	—	8,082,391
Other receivables	15	—	76,195	—	—	76,195
Cash and bank balances	16	—	6,447,538	—	—	6,447,538
		<u>6,258</u>	<u>6,812,781</u>	<u>7,793,343</u>	<u>—</u>	<u>14,612,382</u>
Financial liabilities						
Trade and other payables	22	—	—	—	10,216,632	10,216,632
Lease liabilities	25	—	—	—	39,778	39,778
Loans and borrowings	26	—	—	—	2,230,000	2,230,000
		<u>—</u>	<u>—</u>	<u>—</u>	<u>12,486,410</u>	<u>12,486,410</u>

	Note	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortized costs RMB'000	Fair Value through OCI RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000	Total US\$'000
As of December 31, 2021							
Financial assets							
Quoted equity securities	14	606	—	—	—	606	96
Trade and bills receivable	15	—	3,622,841	3,338,816	—	6,961,657	1,101,145
Other receivables	15	—	140,835	—	—	140,835	22,277
Cash and bank balances	16	—	5,331,555	—	—	5,331,555	843,307
		<u>606</u>	<u>9,095,231</u>	<u>3,338,816</u>	<u>—</u>	<u>12,434,653</u>	<u>1,966,825</u>
Financial liabilities							
Trade and other payables	22	—	—	—	9,775,626	9,775,626	1,546,239
Lease liabilities	25	—	—	—	40,531	40,531	6,410
Loans and borrowings	26	—	—	—	2,203,000	2,203,000	348,454
		<u>—</u>	<u>—</u>	<u>—</u>	<u>12,019,157</u>	<u>12,019,157</u>	<u>1,901,103</u>

China Yuchai International Limited

Notes to the Consolidated Financial Statements

34. Financial assets and financial liabilities (cont'd)

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

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

Changes in liabilities arising from financing activities

	January 1, 2020 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Foreign exchange movement RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2020 RMB'000
As of December 31, 2020								
Loans and borrowings								
- current	2,055,046	(326,280)	—	—	1,228	6	—	1,730,000
- non-current	—	500,000	—	—	—	—	—	500,000
Lease liabilities								
- current	28,633	(37,561)	4,039	2,198	—	409	25,037	22,755
- non-current	31,374	—	11,217	—	—	(531)	(25,037)	17,023
Total liabilities from financing activities	<u>2,115,053</u>	<u>136,159</u>	<u>15,256</u>	<u>2,198</u>	<u>1,228</u>	<u>(116)</u>	<u>—</u>	<u>2,269,778</u>
	January 1, 2021 RMB'000	Cash flows RMB'000	Addition RMB'000	Accretion of interest RMB'000	Translation reserve RMB'000	Others RMB'000	December 31, 2021 RMB'000	December 31, 2021 US\$'000
As of December 31, 2021								
Loans and borrowings								
- current	1,730,000	(127,000)	—	—	—	500,000	2,103,000	332,637
- non-current	500,000	100,000	—	—	—	(500,000)	100,000	15,817
Lease liabilities								
- current	22,755	(24,940)	1,270	1,819	(54)	26,275	27,125	4,290
- non-current	17,023	—	22,701	—	(43)	(26,275)	13,406	2,120
Total liabilities from financing activities	<u>2,269,778</u>	<u>(51,940)</u>	<u>23,971</u>	<u>1,819</u>	<u>(97)</u>	<u>—</u>	<u>2,243,531</u>	<u>354,864</u>

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

35. Subsequent event

Incorporation of Beijing Yuchai Xingshunda New Energy Technology Co., Ltd.

On March 15, 2022, the Group announced that a 65-35 partnership company, Beijing Yuchai Xingshunda New Energy Technology Co., Ltd. was incorporated with registered capital of RMB 10.0 million (US\$ 1.6 million). This was further to the Company's announcement made on October 20, 2021 that the Group had entered into a cooperation agreement with Beijing Xing Shun Da Bus Co., Ltd., to combine the resources of both partners to accelerate the development, manufacturing and sale of fuel cell powertrain systems as well as core fuel cell power system components for the Beijing, Tianjin and Hebei markets.

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT (the "Agreement") dated as of _____ which shall be deemed to take effect from _____ between **China Yuchai International Limited**, a company incorporated under the laws of Bermuda (the "Company"), and _____ (the "Indemnitee"). [To include if applicable: This Agreement supersedes and replaces any and all previous Agreements between the Company and Indemnitee covering indemnification and advancement of expenses.]

WHEREAS:

(A) It is essential to the Company to retain and attract as directors and officers the most capable persons available;

(B) It is becoming increasingly difficult for companies to attract the most qualified and experienced people to serve as officers and directors because of the tendency of increasing litigation and other challenges by stockholders and others against officers and directors of companies; and

(C) In recognition of Indemnitee's need for substantial protection against personal liability to enhance Indemnitee's continued and effective service to the Company, and to induce Indemnitee to provide such services to the Company as a director or officer, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, whether or not insurance is maintained to provide coverage for Indemnitee.

NOW THEREFORE, in consideration of the foregoing and of Indemnitee's continued service to the Company, the parties hereto agree as follows:

1. Certain Definitions. Whenever used in this Agreement, the following words and phrases shall have the following meanings:

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities or by agreement or otherwise.

"Board" shall mean the Board of Directors of the Company.

"Change in Control" shall be deemed to have occurred if:

(i) any "person" or "group", as such terms are used in Sections 3(a)(9), 13(d) and 14(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than (x) Hong Leong Asia Ltd or any of its Affiliates or (y) any employee benefit plan sponsored by the Company or an Affiliate, becomes a "Beneficial Owner", as such term is used in Rule 13d-3 under the Exchange Act, of 30% or more of the "Voting Stock" (which means the capital stock of any class or classes of the Company having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of such corporation) of the Company;

- (ii) one-third or more of the Board consists of individuals other than members of the Board on the date hereof (the "Incumbent Directors"); provided, however, that (x) any person becoming a director subsequent to such date whose election or nomination for election was approved by two-thirds (but in no event less than two) of the directors who at the time of such election or nomination comprise the Incumbent Directors and (y) any person elected or designated a director pursuant to the Amended and Restated Shareholders Agreement with respect to the Company, dated as of November 9, 1994, shall, in the case of both (x) and (y) above, for purposes of this Agreement, be considered an Incumbent Director;
- (iii) the Company adopts any plan of liquidation, or enters into any agreement, providing for the distribution of all or substantially all of its assets;
- (iv) the Company combines with another company (whether or not the Company is the surviving corporation) and immediately after the combination, the stockholders of the Company immediately prior to the combination (other than stockholders who, immediately prior to the combination, were "Affiliates" of such other company) do not beneficially own, directly or indirectly, more than 70% of the Voting Stock of the combines company; or
- (v) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company occurs.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred upon (i) the transfer, directly or indirectly, of the Company's Special Share to Hong Leong Asia Ltd. or any of its Affiliates or (ii) any corporate reorganization or restructuring occurring, as a result of, directly or indirectly, or otherwise in connection with, the Agreement between the Company and Guangxi Yuchai Machinery Company Limited, a Sino-foreign joint stock company incorporated under the laws of the People's Republic of China ("Yuchai"), in Yulin City on July 18-19, 2003 ("2003 Agreement") and the subsequent agreements entered into in furtherance of the terms of the 2003 Agreement culminating in the Cooperation Agreement dated June 30, 2007.

"Expenses" shall mean any expense, liability or loss, including attorneys' fees, judgments, fines, amounts paid or to be paid in settlement, any interest, assessments, or other charges imposed thereon, and any domestic or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Agreement, paid or incurred in connection with investigating, defending, being a witness in, or participating in (including on appeal), or preparing for any Proceeding relating to any Indemnifiable Event.

"Indemnifiable Event" shall mean any event or occurrence, whether occurring prior to or after the execution of this Agreement, related to the Indemnitee serving or having served as a director or an officer of the Company, or, while a director or officer of the Company, is or was serving at the request of the Company as an agent or representative of the Company or as a director, officer, employee, trustee, agent, or fiduciary of another foreign or domestic corporation (including, but not limited to, Yuchai), partnership, joint venture, employee benefit plan, trust, or other enterprise, or was a director, officer, employee, or agent of a foreign or domestic corporation or of another enterprise at the request of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, whether or not the basis of the Proceeding is alleged action in an official capacity as a director, officer, employee, or agent or in any other capacity while serving as a director, officer, employee or agent of the company, as described above.

“Independent Counsel” shall mean the person or body appointed in accordance with Section 3.

“Proceeding” shall mean any threatened, pending, or completed action, suit, arbitration, alternative dispute resolution mechanism, or any other proceeding (including an action by or in the right of the Company or Yuchai), whether civil, criminal, administrative or investigative, whether predicated on the law of any jurisdiction and whether formal or informal, including, without limitation, Proceedings brought under or predicated upon the Securities Act of 1933, as amended (the “Securities Act”), the Exchange Act and their respective state counterparts or any rule or regulation promulgated thereunder, or any inquiry, hearing, or investigation, whether conducted by the Company or Yuchai, a stockholder or bondholder of the Company or Yuchai, a governmental body, or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit, or proceeding.

“Reviewing Party” shall mean the person or body appointed in accordance with Section 3.

2. Agreement to Indemnify.

(a) General Agreement. In the event Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising out of) an Indemnifiable Event, the Company shall indemnify and hold harmless Indemnitee from and against any and all Expenses to the fullest extent permitted by law applicable to the Indemnifiable Event, or as the same may exist currently or may hereafter be amended or interpreted (but in the case of any such subsequent amendments or interpretations, only to the extent that such amendments or interpretations permit the Company to provide broader indemnification rights than were permitted prior thereto). The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Company’s Bye-laws, vote of its stockholders’ or disinterested directors, or applicable law.

(b) Initiation of Proceeding. Notwithstanding anything in this Agreement to the contrary, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Proceeding initiated by Indemnitee against the Company or any director or officer of the Company unless (i) the Company has joined in or the Board has consented to the initiation of such Proceeding; (ii) the Proceeding is one to enforce indemnification rights under Section 5 hereof; or (iii) the Proceeding is instituted after a Change in Control (other than a Change in Control approved by a majority of the Incumbent Directors) and Independent Counsel has approved its initiation.

(c) Expense Advances. If so requested by Indemnitee, the Company shall advance (within ten business days of such request) any and all Expenses to Indemnitee (an "Expense Advance"), to the extent that the Company is permitted to do so under applicable law; provided that, if and to the extent the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid in connection with the Proceeding then in question. Without affecting the generality of the foregoing, the Company may advance moneys for costs, charges and expenses incurred by the offer in defending any civil or criminal proceedings against the Indemnitee, on condition that the Indemnitee shall repay the advance if any allegation of fraud or dishonesty is proved against them. If Indemnitee has commenced or commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, as provided in Section 4, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or have lapsed). Indemnitee's obligation to reimburse the Company for Expense Advances shall be unsecured and no interest shall be charged thereon.

(d) Mandatory Indemnification. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits in defense of any Proceeding relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

(e) Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expense, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

3. Reviewing Party. Prior to any Change in Control, the Reviewing Party shall be any appropriate person or body consisting of a member or members of the Board or any other person or body appointed by the Board who is not a party to the Proceeding at issue; after a Change in Control, the Reviewing Party shall be the Independent Counsel referred to below. With respect to all matters arising after a Change in Control (other than a Change in Control approved by a majority of Incumbent Directors) concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or under applicable law or the Company's Bye-laws now or hereafter in effect relating to indemnification for Indemnifiable Events, the Company shall seek advice only from Independent Counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld), who is experienced in matters of corporation law and who has not otherwise performed services for the Company or the Indemnitee (other than in connection with indemnification matters) within the last five years. The Independent Counsel shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent the Indemnitee should be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel and to indemnify fully such counsel against any and all expenses (including attorneys' fees), claims, liabilities, loss and damages arising out of or relating to this Agreement or the engagement of Independent Counsel pursuant hereto.

4. Indemnification Process and Appeal

(a) Indemnification Payment. Indemnitee shall be entitled to indemnification of Expenses (to the extent permitted under applicable law), and shall receive payment thereof, from the Company in accordance with this Agreement as soon as practicable after Indemnitee has made written demand on the Company for indemnification, unless the Reviewing Party has given a written opinion to the Company that Indemnitee is not entitled to indemnification under applicable law.

(b) Suit to Enforced Rights. Regardless of any action by the Reviewing Party, if Indemnitee has not received full indemnification within thirty days after making a demand in accordance with Section 4(a), Indemnitee shall have the right to enforce its indemnification rights under this Agreement by commencing litigation in any court in The City of New York, State of New York, having subject matter jurisdiction thereof and in which venue is proper or in any other court of competent jurisdiction seeking an initial determination by the court or challenging any determination by the Reviewing Party or any aspect thereof. The Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party not challenged by the Indemnitee shall be binding on the Company and Indemnitee. The remedy provided for in this Section 4 shall be in addition to any other remedies available to Indemnitee in law or equity.

(c) Defense to Indemnification, Burden of Proof, and Presumptions. It shall be a defense to any action brought by Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for Expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the Company) that it is not permissible under applicable law (including but not limited to where the Indemnitee is guilty of any fraud or dishonesty in relation to the Company) or under this Agreement for the Company to indemnify Indemnitee for the amount claimed. In connection with any such action or any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder, the burden of proving such a defense or determination shall be on the Company. Neither the failure of the Reviewing Party or the Company (including its Board, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action by Indemnitee that indemnification of the claimant is proper under the circumstances because he has met the standard of conduct set forth in applicable law, nor an actual determination by the Reviewing Party or Company (including its Board, independent legal counsel, or its stockholders) that the Indemnitee had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. For purposes of this Agreement, the termination of any claim, action, suit, or proceeding, by judgment, order, settlement (whether with or without court approval), conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

5. Indemnification for Expenses Incurred in Enforcing Rights. The Company shall indemnify Indemnitee against any and all Expenses that are incurred by Indemnitee in seeking (i) indemnification of Expenses by the Company under this Agreement or any other agreement or under applicable law or the Company's Bye-laws now or hereafter in effect relating to indemnification for Indemnifiable Events, and/or (ii) recovery under directors' and officers' liability insurance policies maintained by the Company, but only in the event that Indemnitee ultimately is determined to be entitled to such indemnification or insurance recovery, as the case may be. In addition, the Company shall, if so requested by Indemnitee, advance the foregoing Expenses to Indemnitee (to the extent that the Company is permitted to under applicable law), subject to and in accordance with Section 2(c).

6. Notification and Defense of Proceeding.

(a) Notice. Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company in writing (including a description of the nature of the Proceeding and the facts underlying the Proceeding) of the commencement thereof, and provide such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such Proceeding; but the omission so to notify the Company will not relieve it from any liability that it may have to Indemnitee, except as provided in Section 6(c).

(b) Defense. With respect to any Proceeding as to which Indemnitee notifies the Company of the commencement thereof, the Company will be entitled to participate in the Proceeding at its own expense and except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any Proceeding, the Company will not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently incurred by Indemnitee under this Agreement except as otherwise provided below. Indemnitee shall have the right to employ his own counsel in such Proceeding, but all Expenses related thereto incurred after notice from the Company of its assumption of the defense shall be at Indemnitee's expense unless: (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of the Proceeding and such determination has been affirmed any then existing Independent Counsel, (iii) after a Change in Control the employment of counsel by Indemnitee has been approved by the Independent Counsel, or (iv) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which case all Expenses of the Proceeding shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the determination provided for in (ii) above.

(c) Settlement of Claims. The Company shall not be liable to indemnify Indemnitee under this Agreement or otherwise for any amounts paid in settlement of any Proceeding effected without the Company's written consent, provided, however, that if a Change in Control has occurred the Company shall be liable for indemnification of Indemnitee for amounts paid in settlement if the Independent Counsel has approved the settlement. The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee shall unreasonably withhold their consent to any proposed settlement. The Company shall not be liable to indemnify Indemnitee under this Agreement with regard to any judicial award if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action; the Company's liability hereunder shall not be excused if participation in the Proceeding by the Company was barred by this Agreement.

7. Establishment of Trust. In the event of a Change in Control the Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee (the "Trust") and from time to time upon written request of Indemnitee shall fund the Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for, participating in, and/or defending any Proceeding relating to an Indemnifiable Event. The trustee of the Trust (the "Trustee") will be a bank or trust company or other individual or entity chosen by the Indemnitee and reasonably accepted to the Company. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party. The terms of the Trust shall provide that (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee, (ii) the Trustee shall advance, within ten business days of a request by Indemnitee, any and all Expenses to Indemnitee (and Indemnitee hereby agrees to reimburse the Trust under the same circumstances for which Indemnitee would be required to reimburse the Company under Section 2(c) of this Agreement, (iii) the Trust shall continue to be funded by the Company in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in the Trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be chosen by Indemnitee. Nothing in this Section 7 shall relieve the Company of any of its obligations under this Agreement. All income earned on the assets held in the trust shall be reported as income by the Company for federal, state, local, and foreign tax purposes. The Company shall pay all costs of establishing and maintaining the Trust, and shall indemnify the Trustee against any and all expenses (including attorneys' fees), claims, liabilities, loss and damages arising out of or relating to this Agreement or the establishment and maintenance of the Trust.

8. Non-Exclusivity. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's By-laws, applicable law, or otherwise. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's By-laws, applicable law, or this Agreement, it is the intent of the parties that Indemnitee enjoy by this Agreement the greater benefits so afforded by such change.

9. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

10. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any Affiliate of the Company against Indemnitee, Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, or such longer period as may be required by state of law under the circumstances. Any claim or cause of action of the Company or its Affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, the shorter period shall govern.

11. Retroactivity. This Agreement shall be deemed to have been in effect during all periods that Indemnitee was an officer or director of the Company, regardless of the date of this Agreement.

12. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

13. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers reasonably required and shall do everything that may be reasonably necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

14. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise received payment (under any insurance policy, Bye-laws, or otherwise) of the amounts otherwise indemnifiable hereunder.

15. Binding Effect. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business and/or assets of the Company), assigns, spouses, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation, or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity pertaining to an Indemnifiable Event even though he may have ceased to serve in such capacity at the time of any Proceeding.

16. Severability. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including without limitation, each portion of this Agreement containing any provision held to be invalid, void, or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void, or unenforceable.

17. Governing Law and Language. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York. This Agreement shall be executed in English and Chinese and both versions shall have the same legal effect. In the event of any discrepancy between the two versions, the English version shall prevail.

18. Consent Jurisdiction.

(a) The parties irrevocably agree that any United States Federal or State court in the Borough of Manhattan, The City of New York, State of New York are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that, accordingly, any legal action or proceedings arising out of or in connection with this Agreement may be brought in such courts and the parties irrevocably submit to the jurisdiction of such courts.

(b) Nothing in this Section shall limit the right of any party to take any legal action or proceedings arising out of or in connection with this Agreement in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude any party from taking Proceedings in any other jurisdiction, whether concurrently or not.

19. Notices. All notices, demands, and other communications required or permitted hereunder shall be made in writing and shall be deemed to have been duly given if delivered by hand against receipt, mailed postage prepaid by certified or registered mail with return receipt requested or sent by facsimile transmission with acknowledging transmission requested and received and addressed as follows:

COMPANY:

INDEMNITEE:

Notice of change of address or facsimile number shall be effective only when given in accordance with this Section. All notices complying with this Section shall be deemed to have been received on the earlier of the date of delivery or on the third business day after mailing.

(Signature Page Follows)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

CHINA YUCHAI INTERNATIONAL LIMITED

By _____

Name:

Title : Director

Name:

Title : Director

INDEMNITEE

Name:

Title :

The particulars of the Company's subsidiaries as at December 31, 2021 are set forth below:

Name of company	Jurisdiction	Attributable equity interests	
		Direct	Indirect
Guangxi Yuchai Machinery Company Limited	People's Republic of China ("PRC")	—	76.4%
Guangxi Yuchai Accessories Manufacturing Company Limited	PRC	—	76.4%
Guangxi Yuchai Exhaust Technology Co., Ltd.	PRC	—	76.4%
Guangxi Yuchai Equipment Mould Company Limited	PRC	—	76.4%
Guangxi Yuchai Machinery Monopoly Development Co., Ltd.	PRC	—	54.9%
Jining Yuchai Engine Company Limited	PRC	—	76.4%
Hangzhou Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Nanchang Yuchai Marketing Company Limited	PRC	—	54.9%
Xiamen Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Suzhou Yuchai Machinery Monopoly Co., Ltd.	PRC	—	54.9%
Wulumuqi Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Changchun Yuchai Marketing Company Limited	PRC	—	54.9%
Xian Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Hefei Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Shijiazhuang Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Jinan Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Chongqing Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Wuhan Yuchai Marketing Company Limited	PRC	—	54.9%
Guangxi Yuchai Crankshaft Co., Ltd.	PRC	—	76.4%
Guangxi Yulin Hotel Company Limited	PRC	—	76.4%
Guangxi Shang Lin Food Co., Limited	PRC	—	76.4%
Yuchai Xin-Lan New Energy Power Technology Co., Ltd.	PRC	—	76.4%
Guangxi Yuchai Marine and Genset Power Co., Ltd. (Formerly known as Guangxi Yuchai Deyou Engine Co., Ltd.)	PRC	—	76.4%
Guangxi Yuchai Deyou Engine Systems Co., Ltd.	PRC	—	76.4%
Jiangsu UniTrump Power Technology Co., Ltd.	PRC	—	76.4%
Guangzhou Tongju Commerce and Trade Company Limited	PRC	—	54.9%
Hunan Yuchai Machinery Industry Company Limited	PRC	—	54.9%
Yuchai Remanufacturing Services (Suzhou) Co., Ltd.	PRC	—	76.4%
Shanghai Yuchai Jidian Marketing Company Limited	PRC	—	54.9%
Shenyang Yuchai Marketing Company Limited	PRC	—	54.9%
Lanzhou Yuchai Marketing Company Limited	PRC	—	54.9%
Beijing Jingdu Yuchai Trade Company Limited	PRC	—	54.9%
Baotou Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Taiyuan Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Guiyang Yuchai Machinery Monopoly Company Limited	PRC	—	54.9%
Zhengzhou Yuchai Marketing Company Limited	PRC	—	54.9%
Hainan Yuchai Marketing Company Limited	PRC	—	54.9%
Harbin Yuchai Marketing Company Limited	PRC	—	54.9%
Sichuan Yuchai Machinery Industry Company Limited	PRC	—	54.9%
Vietnam Yuchai Machinery Services Co., Ltd.	Vietnam	—	54.9%
Xuzhou Yuchai Machinery Industry Development Co., Limited	PRC	—	54.9%
Yunnan Yuchai Machinery Industry Company Limited	PRC	—	54.9%
Yulin Yuchai Machinery Industry Development Co., Ltd.	PRC	—	54.9%
YC Europe Co., Limited	Hong Kong	—	57.3%
YC Europe GmbH	Germany	—	57.3%

Name of company	Jurisdiction	Attributable equity interests	
		Direct	Indirect
Grace Star Services Ltd.	British Virgin Islands ("BVI")	—	100.0%
Venture Delta Limited	BVI	—	100.0%
Hong Leong Technology Systems (BVI) Ltd.	BVI	100.0%	—
Cathay Diesel Holdings Ltd.	Cayman Islands	100.0%	—
Goldman Sachs Guangxi Holdings (BVI) Ltd.	BVI	100.0%	—
Tsang & Ong Nominees (BVI) Ltd.	BVI	100.0%	—
Youngstar Holdings Limited	BVI	100.0%	—
Earnest Assets Limited	BVI	100.0%	—
Constellation Star Holdings Limited	BVI	100.0%	—
HL Global Enterprises Limited	Singapore	—	48.9%(1)

(1) We consolidate HLGE as a subsidiary, as we are able to govern the financial and operating policies of HLGE. As of February 28, 2022, our shareholding interest in HLGE was 48.9%.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Hoh Weng Ming, certify that:

1. I have reviewed this annual report on Form 20-F of China Yuchai International Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

By: /s/ Hoh Weng Ming

Name: Hoh Weng Ming

Title: President and Director

Date: April 22, 2022

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Loo Choon Sen, certify that:

1. I have reviewed this annual report on Form 20-F of China Yuchai International Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

By: /s/ Loo Choon Sen

Name: Loo Choon Sen

Title: Chief Financial Officer

Date: April 22, 2022

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of China Yuchai International Limited (the "Company") hereby certifies, to such officer's knowledge that:

(i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Hoh Weng Ming

Name: Hoh Weng Ming

Title: President and Director

Date: April 22, 2022

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. 1350, and is not being filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of China Yuchai International Limited (the "Company") hereby certifies, to such officer's knowledge that:

(i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Loo Choon Sen

Name: Loo Choon Sen

Title: Chief Financial Officer

Date: April 22, 2022

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. 1350, and is not being filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-197287) pertaining to the Equity Incentive Plan of China Yuchai International Limited of our reports dated April 22, 2022, with respect to the consolidated financial statements of China Yuchai International Limited, and the effectiveness of internal control over financial reporting of China Yuchai International Limited included in this Annual Report (Form 20-F) for the year ended December 31, 2021.

/s/ Ernst & Young LLP
April 22, 2022