

CHINA YUCHAI INTERNATIONAL LTD

Form 20-F

April 16, 2018

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**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, 2017

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from to

**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

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**

**+65-6220-8411**

(Address and Telephone Number of Principal Executive Offices)

**Phung Khong Fock Thomas**

**Chief Financial Officer**

**16 Raffles Quay**

**#39-01A Hong Leong Building**

**Singapore 048581**

**Tel: +65 6220 8411**

**Fax: +65 6221 1172**

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

**Title of Each Class**  
Common Stock, par value US\$0.10 per Share

**Name of Each Exchange on Which Registered**  
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, 2017, 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

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 the definitions 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 which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

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 report is an annual report, indicate by check mark if 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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**Table of Contents****Certain Definitions and Supplemental Information**

All references to China, PRC and the State 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, dollar, US\$ or \$ 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; all references to RM are to Ringgit, the legal tender currency of Malaysia. 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 6.3294 = US\$1.00, the rate quoted by the People's Bank of China, or PBOC, on February 28, 2018, (ii) from Singapore dollar to US dollar at the rate of S\$1.3231 = 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, 2018, and (iii) from Ringgit to US dollar at the rate of RM 3.9150 = 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, 2018. 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.

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.

As used in this Annual Report, unless the context otherwise requires, the terms the Company, the Group, CYI, we, us, our and our subsidiaries 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, which was founded in 1951 and became a state-owned enterprise in 1959. In the restructuring of Yulin Diesel in July 1992, its other businesses were transferred to Guangxi Yuchai Machinery Holdings Company, also sometimes referred to as Guangxi Yuchai Machinery Group Company Limited, or the State Holding Company, which became a shareholder of Yuchai. 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, 2017, 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 40,764,569 as a result of the payment of certain amounts of dividends in the form of shares at the election of shareholders and the issuance of shares pursuant to the exercised share option granted under our Equity Incentive Plan. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 40,764,569 for 2017. As of February 28, 2018, 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-2, Tier-3 and Tier-4 emission standards are to emission standards adopted by the Ministry of Environmental Protection of the People's Republic of China 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.

**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 which, 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 2018 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 Chinese government's specific 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 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 a withdrawal of the United Kingdom from the European Union on the overall global economy and our business, operating results and growth rates;

the effects of competition and excess capacity in the diesel engine market on the demand, sales volume and sales prices for our diesel engines;

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 Dongfeng Automobile Co., Ltd. and other major diesel truck manufacturers controlled by or affiliated with Dongfeng Automobile Co., Ltd.;

our ability to successfully manage and implement our joint ventures and manufacture and sell our diesel and natural gas 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 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;

the effects of uncertainties in the Chinese legal system, which could limit the legal protection 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 where the HLGE group's hospitality operations are located, as well as related global economic trends that adversely impact the travel and tourism industries;

the outbreak of communicable diseases, if not contained, and its potential effects on the operations of the HLGE group and its business in the hospitality industry; and



the impact 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 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 our results of 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**

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**Selected Financial Data**

The selected consolidated statement of financial position data as of December 31, 2016 and 2017, 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, 2015, 2016 and 2017 are derived from our audited consolidated financial statements included in this Annual Report. The selected consolidated statement of financial position data as of December 31, 2013, 2014 and 2015, 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, 2013 and 2014 are derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been prepared in conformity with IFRS.

The selected financial information as of and for the years ended December 31, 2015, 2016 and 2017 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 implementation of the Reorganization Agreement, as amended by the Cooperation Agreement.

Following an announcement in February 2005 by the Board of Directors of the Company of its approval of the implementation of our business expansion and diversification plan, we looked for new business opportunities to seek to reduce our financial dependence on Yuchai. As of December 31, 2017, we had a 48.9% interest in the outstanding ordinary shares of HLGE and a 7.7% interest in the outstanding ordinary shares of TCL. As of February 28, 2018, our interest in the outstanding ordinary shares of HLGE and TCL remained unchanged.

**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, Venture Delta Limited ( Venture Delta ) 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, 2017. 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, 2017 and February 28, 2018. We consolidate the results of HLGE as a subsidiary. See Note 1.3 to the accompanying consolidated financial statements in Item 18.

**Relating to our interest in TCL:**

Since fiscal year 2010, we have gradually reduced our total shareholding in TCL. Our total shareholding interest in TCL was 7.7% as of December 31, 2017 and February 28, 2018. We classify our shareholding in TCL as held for trading investment.

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For further information on the Company's investments in HLGE and TCL, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

	2013 RMB	2014 RMB	Year ended December 31,		2017 RMB	2017 US\$ <sup>(1)</sup>
			2015 RMB	2016 RMB		
(in thousands, except per share data)						
<b>Selected Consolidated Statement of Profit or Loss Data:</b>						
Revenue	15,902,355	16,436,142	13,733,437	13,664,840	16,222,442	2,563,030
Gross profit	3,264,904	3,290,990	2,790,572	2,964,185	3,515,023	555,349
Research and development costs	(468,612)	(494,594)	(506,955)	(588,007)	(608,181)	(96,088)
Other operating income, net	156,352	94,892	19,337	95,355	624,633	98,687
Operating profit	1,402,416	1,292,618	805,180	967,173	1,715,622	271,056
Share of results of associates and joint ventures	(79,086)	(29,755)	(2,691)	(3,612)	10,054	1,589
Profit before tax	1,162,119	1,201,385	686,138	883,878	1,625,237	256,776
Income tax expense	(222,147)	(179,639)	(176,818)	(160,270)	(220,167)	(34,785)
Profit for the year	939,972	1,021,746	509,320	723,608	1,405,070	221,991
Attributable to:						
Equity holders of the parent	700,423	730,280	341,108	515,737	953,922	150,713
Non-controlling interests	239,549	291,466	168,212	207,871	451,148	71,278
Basic and diluted earnings per common share attributable to ordinary equity holders of the parent (RMB/US\$ per share)						
	18.79	19.36	8.81	12.89	23.40	3.70
Profit for the year per share (RMB/US\$ per share)	25.22	27.09	13.16	18.08	34.47	5.45
Weighted average number of shares	37,268	37,720	38,712	40,017	40,765	40,765

	2013 RMB	2014 RMB	As of December 31,		2017 RMB	2017 US\$ <sup>(1)</sup>
			2015 RMB	2016 RMB		
(in thousands)						
<b>Selected Consolidated Statement of Financial Position Data:</b>						
Working capital <sup>(2)</sup>	4,333,904	4,925,945	4,366,413	5,272,069	6,603,775	1,043,349
Property, plant and equipment	4,036,163	4,460,842	4,329,544	4,127,185	3,824,018	604,168
Trade and bills receivables	7,437,948	8,113,094	7,178,513	7,057,256	7,031,544	1,110,934
Total assets	19,293,168	18,773,336	18,815,602	18,596,506	21,015,059	3,320,229
Trade and other payables	7,718,488	6,547,296	6,192,190	6,981,815	7,624,496	1,204,616
Short-term interest-bearing loans and borrowings	1,230,981	1,209,001	2,399,195	894,136	1,600,000	252,789
Long-term interest-bearing loans and borrowings	1,028,396	1,077,716	56,509	16,270	26,341	4,162
Non-controlling interests	2,042,592	2,163,382	2,190,452	2,301,978	2,631,714	415,792
Issued capital	1,724,196	1,840,227	1,955,720	2,059,076	2,081,138	328,805
Equity attributable to equity holders of the parent	6,391,573	6,988,432	7,239,617	7,683,834	8,347,562	1,318,855

	2013 RMB	2014 RMB	Year ended December 31,		2017 RMB	2017 US\$ <sup>(1)</sup>
			2015 RMB	2016 RMB		
(in thousands)						
<b>Selected Consolidated Statement of Cash Flows Data:</b>						
Net cash provided by operating activities	589,642	535,686	1,686,718	2,276,087	1,370,167	216,477
Net cash (used in)/from investing activities	(553,591)	(523,019)	(25,496)	(572,031)	126,570	19,997
Net cash (used in)/from financing activities	(553,179)	(314,749)	(485,535)	(1,553,986)	280,862	44,374
Effect of foreign currency exchange on cash and cash equivalents	(13,938)	(3,109)	7,332	29,480	(41,189)	(6,507)

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Net (decrease)/increase in cash and cash equivalents	(531,066)	(305,191)	1,183,019	179,550	1,736,410	274,341
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- (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 6.3294 = US\$1.00, the rate quoted by the People's Bank of China (the PBOC) at the close of business on February 28, 2018. 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, 2018 or any other date. The rate quoted by the PBOC at the close of business on December 29, 2017 was RMB 6.5342 = US\$1.00.
- (2) Current assets less current liabilities.

**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, or Foreign Shares, and became a Sino-foreign joint stock company.

Chinese laws and regulations applicable to a Sino-foreign joint stock company 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 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 us) 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 Chinese laws, regulations and policies.

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:

Fiscal Year	Dividend paid by the Company to its shareholders for the fiscal year/ in the fiscal year (per share)	Dividend paid by Yuchai to the Company <sup>(1)</sup> for the fiscal year /in the fiscal year (in thousands)
2013	US\$0.90 <sup>(2)(3)</sup>	RMB 343,349 (US\$54,999) <sup>(4)</sup>
2014	US\$1.20 <sup>(5)</sup>	RMB 325,278 <sup>(6)</sup>
2015	US\$1.10 <sup>(7)</sup>	RMB 271,058 <sup>(8)</sup>
2016	US\$0.85 <sup>(9)</sup>	RMB 318,050 <sup>(10)</sup>
2017	US\$0.90 <sup>(11)</sup>	RMB 234,923 <sup>(12)</sup>

- (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 June 17, 2013, we declared a dividend of US\$0.40 per ordinary share and a special dividend of US\$0.40 per ordinary share amounting to a total of US\$29.8 million for fiscal year 2012. This dividend was paid to our shareholders on July 10, 2013.
- (3) On August 5, 2013, we declared an interim dividend of US\$0.10 per ordinary share for fiscal year 2013 amounting to a total of US\$3.7 million. This dividend was paid to our shareholders on August 26, 2013.

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- (4) The dividend declared by Yuchai for fiscal year 2013 was paid to us entirely in US dollar on May 16, 2014. For dividend paid for fiscal year 2013, the exchange rate used was RMB 6.2428 = US\$1.00.
- (5) On May 12, 2014, we declared a dividend of US\$1.20 per ordinary share amounting to a total of US\$44.7 million for fiscal year 2013 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\$26 million in cash and 928,033 ordinary shares.

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- (6) The dividend declared by Yuchai for fiscal year 2014 was paid to us on May 29, 2015. For dividend paid for fiscal year 2014, RMB 32.6 million was paid in Renminbi and the remaining RMB 292.7 million was paid in US dollar at an exchange rate of RMB 6.2135 = US\$1.00.
- (7) On May 22, 2015, we declared a dividend of US\$1.10 per ordinary share amounting to a total of US\$42.0 million for fiscal year 2014 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\$23.4 million in cash and 1,102,634 ordinary shares.
- (8) The dividend declared by Yuchai for fiscal year 2015 was paid to us on May 26, 2016. The dividend paid for fiscal year 2015, RMB27.0 million was paid in Renminbi and the remaining RMB 244.1 million was paid in US dollar at an exchange rate of RMB6.5636=US\$1.00.
- (9) On May 12, 2016, we declared a dividend of US\$0.85 per ordinary share amounting to a total of US\$33.4 million for fiscal year 2015 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\$17.8 million in cash and 1,413,760 ordinary shares.
- (10) The dividend declared by Yuchai for fiscal year 2016 was paid to us on May 19, 2017. The dividend paid for the fiscal year 2016, RMB 318.0 million was paid in Renminbi.
- (11) 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.
- (12) The dividend declared by Yuchai for fiscal year 2017 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 2017 and upon the receipt of approval by Yuchai's shareholders.

**Historical Exchange Rate Information**

On December 29, 2017, the PBOC rate was RMB 6.5342 = US\$1.00. On February 28, 2018, the PBOC rate was RMB 6.3294 = US\$1.00.

On December 29, 2017, the noon buying rate was RMB 6.5063 = US\$1.00. On February 28, 2018, the noon buying rate was RMB 6.3280 = US\$1.00.

The following tables set forth certain information concerning exchange rates between Renminbi and US dollar based on 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 for the periods indicated:

**Noon Buying****Rate <sup>(1)</sup>**

<b>Period</b>	<b>(RMB per US\$1.00)</b>	
	<b>High</b>	<b>Low</b>
October 2017	6.6533	6.5712
November 2017	6.6385	6.5967
December 2017	6.6210	6.5063
January 2018	6.5263	6.2841
February 2018	6.3471	6.2649
March 2018	6.3565	6.2685

**Noon Buying Rate <sup>(1)</sup>****(RMB per US\$1.00)**

<b>Period</b>	<b>Period End</b>	<b>(RMB per US\$1.00)</b>		
		<b>Average <sup>(2)</sup></b>	<b>High</b>	<b>Low</b>
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018 (through February 28, 2018)	6.3280	6.3734	6.5263	6.2649

- (1) 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. Since April 1994, the noon buying rate has been based on the rate quoted by the PBOC. As a result, since April 1994, the noon buying rate and the PBOC rate have been substantially similar. The PBOC rate at the end of December 29, 2017 was RMB 6.5342 compared with RMB 6.5063 for the noon buying rate at the end of December 29, 2017.
- (2) Determined by averaging the rates on each business day of each month during the relevant period.



**Table of Contents****Risk Factors****Risks relating to our shares and share ownership***Our controlling shareholder's interests may differ from those of our other shareholders.*

As of February 28, 2018, our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 16,360,845 or approximately 40.0%, 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 23.3% 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 16.7% of the outstanding shares of our Common Stock as of February 28, 2018. 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, especially the effects of a weaker than expected recovery in the global economy in 2017 and beyond subject to substantial downside risks including heightened policy uncertainty especially regarding trade, financial market disruptions amid global financing conditions, and heightened geopolitical tensions globally, protracted recovery in the Euro Area and the economic effects from a withdrawal of the United Kingdom from the European Union and weaker than

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expected growth in China. See Item 3. Key Information Risk Factors Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy;

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 US 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, 2017. 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 US Holder (defined below) holds our shares, certain adverse United States federal income tax consequences could apply to the US 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 in our group (if any). If our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations (regardless of whether we are or are not treated as a controlled foreign corporation). A United States shareholder of a controlled foreign corporation 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 controlled foreign corporations, whether or not we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation 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 controlled foreign corporation or whether such investor is treated as a United States shareholder with respect to any of such controlled foreign corporations or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. A United States investor should consult their own advisors regarding the potential application of these rules to its investment in the Common Stock.

**Risks relating to our company and our business**

***The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.***

Our operations and performance depend significantly on worldwide economic conditions. 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. According to the World Bank's Global Economic Prospects issued in January 2018, global growth in 2017 increased to 3.0% from 2.4% in 2016, due to a broad-based upturn in more than half of the world's economies.

The world economy is expected to grow moderately by 3.1% in 2018 compared with 3.0% in 2017. However, the World Bank has stated that growth may be uneven between advanced economies and emerging market and developing economies. Growth in advanced economies is projected to slow due to diminishing labor market slack and the gradual unwinding of monetary policy accommodation. The outlook for emerging market and developing economies is expected to be positive in the near-term, while underlying potential growth is likely to decline over the long-term because of slow capital accumulation and productivity growth and less favorable demographic trends. In addition, downside risks such as disorderly financial market movements, adverse effects of rising borrowing costs, escalating trade protectionism and geopolitical risks continue to exist.

Pursuant to a referendum in the United Kingdom on June 23, 2016, the country voted to terminate its membership in the European Union (the EU ) and leave the EU. On March 29, 2017, the United Kingdom's prime minister triggered Article 50 of the EU treaty of Lisbon, as a result of which the United Kingdom will officially leave the EU no later than April 2019. There is uncertainty surrounding the future of the United Kingdom and its relationship with the EU, including the terms of an agreement between the United Kingdom and the EU, if any, governing the terms of the United Kingdom's withdrawal. The United Kingdom's withdrawal from the EU may have an unfavorable impact on the economies of the Euro Area and beyond, particularly if other EU member states also decide to withdraw from the EU. According to its Winter European Economic Forecast issued on February 13, 2018, the European Commission anticipates economic recovery in the Eurozone will continue with growth in 2018 forecasted at 4.1% in both 2018 and 2019, up from 3.8% in 2017. However, heightened uncertainty arising from the United Kingdom's commencement of formal negotiations to withdraw from the EU and the key policies to be implemented by U.S. President Donald J. Trump's administration in the United States cast uncertainty on the European Commission's forecast. The current political climate has introduced greater uncertainty with respect to trade policies, tariffs and

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government regulations affecting trade between the U.S. and China. In March 2018, the Trump administration announced import tariffs on steel and aluminum, including imports from China where our operations are primarily located. The effect of this policy, and the possibility and extent of any international trade conflicts, particularly trade conflicts between the U.S. and China, and such conflict's impact, if any, on our business or results of operations is uncertain. In addition, the performance of the Chinese economy affects, to a significant degree, our financial condition, results of operations, business and prospects. For example, the various measures taken by the Chinese government from time to time to regulate economic growth and control inflation have in prior periods, significantly weakened demand for trucks in China, and may have a similar effect in the future. 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.

According to the National Bureau of Statistics, China's economy grew by 6.9% in 2017. Although the growth slowdown in China continues to be gradual in response to the Chinese government's planned reform of the economy, there are downside risks to growth. The main short-term risk is the unwinding of high leverage in sectors with excess capacity, namely the manufacturing, industrial and real estate sectors. This may result in a sharper-than-expected slowdown in investment and hence in aggregate demand. There have been increasing concerns over China's current debt levels which continue to trend upwards despite decelerating credit growth which has resulted in fears over possible defaults by local banks, corporate entities including state-owned enterprises and local provincial governments. On March 5, 2016, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China for the next five years from 2016 to 2020 to a range of 6.5% to 7.0% conceding that there were many challenges ahead including growing downward pressures on China's economy. The 13th Five Year Plan covering the years 2016 to 2020 was also formerly approved at the annual legislative session. The 13th Five Year Plan is predicated on an average annual growth of 6.5% which is required in order to achieve the government's goal of doubling per capita income by 2020 over 2010. On March 5, 2017, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China in 2017 to 6.5% citing increased uncertainties, challenges and instabilities both in and outside of China. On March 5, 2018, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the growth target for China in 2018 would remain unchanged at 6.5%. 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 Chinese government policies.

Further, as a result of recurring liquidity tightening in the banking system, alternative lending and borrowing outside of traditional banking practices, generally known as shadow banking, has grown to become an integral and significant aspect of the Chinese economy. Such alternative lending is loosely regulated and has led to an increase in China's debt levels leading to concern over rising bad debts and financial problems. As an increasing portion of the funds obtained from shadow banking are being used for investments in speculative and risky products or assets, should a widespread default on such investments occur, this could harm the growth prospects of the Chinese economy. While there has been increased scrutiny and oversight by regulators, this has not entirely eradicated the shadow banking industry in China. Even if the Chinese government increases regulation over such alternative lending and borrowing, there is no assurance that such regulations will be successful, or that they would not have an adverse impact on the overall loan markets and liquidity in China, which will negatively impact the Chinese economy.

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

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 2015, sales of commercial vehicles declined (excluding gasoline-powered and electric powered-vehicles) by 14.4% compared to 2014 to 2.5 million units. In 2016, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 2.7 million units, an increase of 8.3% compared with 2015, primarily due to an increase of 11.6% in the truck market as stricter enforcement of anti-overloading regulations resulted in higher sales, which was partially offset by a 9.9% decline in sales in the bus segment compared with 2015. In 2017, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 3.1 million units, an increase of 16.9% compared with 2016, primarily due to an increase of 19.5% in the truck market as stricter enforcement of anti-overloading regulations and increasing demand in logistics services resulted in higher sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1% compared with 2016. The Chinese government introduced generous incentives to encourage purchases of electric-powered vehicles to curb air pollution in the major cities, resulting in increased sales of electric-powered commercial vehicle, particularly in the light-duty engine vehicles segment. As a result of these initiatives, bus engine sales volume in China and our share of the bus market have gradually decreased. For more details, see "Increasing demand for electric vehicles may lead to decreases in demand for our engines affecting our market share and profitability" and "Item 5. Operating and Financial Review and Prospects Overview."

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In recent years, the policies of the Chinese government have encouraged energy conservation and emissions reduction. On August 11, 2013, the Chinese government released a guideline titled "Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries." According to the guideline, the government planned to upgrade the environmental sector to a key industry by 2015 and fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On April 24, 2014, proposed amendments to the 1989 Environmental Protection Law were passed by China's Standing Committee of the National People's Congress. The new amendments which came into effect on January 1, 2015 provide for increased fines against polluting companies, detention of negligent executives, protection for whistleblowers and penalties for officials who fail to enforce laws. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014 -2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. Premier Li Keqiang in his 2017 annual policy report acknowledged the continued concerns over environmental pollution and stated that the Chinese government would increase the pace of progress to improve the environment, especially air quality. The measures to be adopted include tackling the sources of pollution in key industries, strengthening control over exhaust emitted by motor vehicles through the prohibition of use of higher emission vehicles, improving the quality of fuel and promoting the use of clean energy vehicles and the strict enforcement of environment laws and regulations. China's 13th Five Year Plan covering the years 2016 to 2020, which was formerly adopted at the National People's Congress in Beijing in March 2016 seeks to reduce energy consumption by 15% and carbon emissions by 18% by 2020. In addition, green and low-carbon industry systems will be set up, the use of new energy vehicles will be promoted and the industrialization level of electric cars improved. On March 11, 2016, China's Environment Minister announced a set of major reforms of China's environmental management and governance system to strengthen enforcement of related environmental protection laws. The reforms which will be phased in on a pilot basis in 17 provinces and autonomous regions, will be completed nationwide in 2018. As part of the reforms, in 2016, the State Council dispatched central environmental inspection teams made up of ministerial level officials to 15 provincial areas, including Beijing, Shanghai and Guangzhou, to monitor local conditions and encourage provincial governments to fulfill their environmental protection responsibilities, resulting in disciplinary actions against a number of government officials and the imposition of fines for environmental violations. Such central environmental inspections are intended to cover all provinces, autonomous regions and municipalities by the end of 2017. In addition, in February 2017, China's Environment Minister announced a month-long special inspection on air quality across Beijing and Tianjin municipalities and Hebei, Shanxi, Shandong and Henan provinces to check on the implementation of pollution control measures by both local governments and companies. On April 10, 2017, the Ministry of Environmental Protection issued its 13th Five-Year Plan for National Environmental Protection Standards. The Plan calls for the amendment of existing environmental protection standards and the implementation of new environmental protection standards, including in relation to air quality and pollution emission control, environment detection and basic environment standards and environmental management standards.

Although a series of policy and reform measures have been formulated to create a sustainable environment for the rapid growth of the energy saving and environmental protection industry, there is no assurance that these measures will be successful. We cannot assure you that the Chinese government will not change its policies in the future. 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 rate as in the past or at all.

***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 State Holding Company, 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 State Holding Company 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.



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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 TCL and HLGE. 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, or 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 State Holding Company 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.

***Recently enacted tariffs on certain imports into the United States and China, and other potential changes to tariff and import/export regulations may have a negative effect on global economic conditions and our business, financial results and financial condition.***

On March 8, 2018, the Trump administration implemented new tariffs on imports of steel and aluminum into the United States, although Canada and Mexico are temporarily exempt pending the outcome of certain trade negotiations and there is flexibility for other countries to be exempted at a later date. These tariffs went into effect on March 25, 2018. Further, there has been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties, including threats by the United States to withdraw from certain treaties and other countries signing new trade agreements without U.S. participation. On April 4, 2018, the Chinese government announced a proposal to impose tariffs on over 100 types of imports from the United States to China. In addition, a number of other countries are threatening to impose tariffs on U.S. imports. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the China and the United States. Any of these factors 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.

These tariffs have just recently been announced and are subject to a number of uncertainties as they are implemented, including future adjustments and changes in the countries excluded from such tariffs. The ultimate reaction of other countries, and the impact of these tariffs on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade.

***We have in the past and may in the future experience disagreements and difficulties with the Chinese 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 Chinese shareholders regarding our investment in Yuchai, we may have to rely on the Chinese legal system for remedies. The Chinese legal system may not be as effective as compared to other more developed countries, such as the United States. See Item 3. Key Information Risk Factors Risks relating to China The Chinese legal system embodies uncertainties which could limit the legal protection available to foreign investors. We have, in the past experienced problems from time to time in obtaining assistance and cooperation of Yuchai's Chinese 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 State Holding Company in dealing with other 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 ending 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 as of December 31, 2012 to 2017. 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 as of December 31, 2012 to 2017.

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 the Dongfeng Group for a significant percentage of our sales.*

Our sales are concentrated among the Dongfeng Group, which includes Dongfeng Automobile Co., Ltd., one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with Dongfeng Automobile Co., Ltd. In 2017, sales to the Dongfeng Group accounted for 29.8% of our total revenue, of which sales to our two largest customers, Dongfeng Liuzhou Motor Co., Ltd and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co., Ltd. company), accounted for 10.7% and 4.3%, respectively. In 2017, our sales to our top five customers including the Dongfeng Group accounted for 40.1% of our total revenue. Although we consider our relationship with the Dongfeng Group and the other top four customers to be good, the loss of one or more of the companies within the Dongfeng Group as a customer or any one of our other top four 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 the Dongfeng Group from us, we have exposure to their liquidity arising from the high level of accounts receivables from them. We cannot assure you that the Dongfeng Group will be able to repay all the money they owe to us. In addition, the Dongfeng Group may not be able to continue purchasing the same volume of products from us which would reduce our overall sales volume.

The Dongfeng Group also competes with us in the diesel engine market in China. Although we believe that the companies within the Dongfeng Group generally make independent purchasing decisions based on end-user preferences, we cannot assure you that truck manufacturers affiliated with Dongfeng Automobile Co., Ltd. will not preferentially purchase diesel engines manufactured by companies within the Dongfeng 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 compete with many other China domestic companies, most of which are state-owned enterprises. Some of our competitors have formed joint ventures with or have technology assistance relationships with foreign diesel engine manufacturers or foreign engine design consulting firms and use foreign technology that is more advanced than ours. We expect competition to intensify as a result of:

improvement in competitors' products;

increased production capacity of competitors;

increased utilization of unused capacity by competitors;

price competition;

increased emphasis on new-energy vehicles; and

consolidations in the diesel engine industry.

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In addition, we believe there has been excess capacity in the diesel engine industry in the past from time to time due to fluctuations in market demand. For example, market demand has fluctuated between 2010 and 2017 as a result of, among other things, stimulus measures announced by the Chinese government to counter the effects of the 2008 global financial crisis, investment in capacity expansion by our competitors, the phasing out of Chinese government incentives 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 vehicle industry is experiencing changes under the Chinese government's latest initiatives to develop energy saving and new energy vehicles. It may lead to decrease in demand for our engines affecting our market share and profitability.***

In 2015, China government issued the first ten-year action plan for China to become a leading manufacturing nation, namely Made In China 2025 ( MIC 2025 ), putting forward energy saving and new energy vehicles as one of the key development area in vehicle industry. New energy vehicles 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. New energy vehicles include hybrid, pure electric vehicles, fuel cell electric vehicles and other alternative energy-powered vehicles.

The Chinese government has introduced generous incentives to encourage purchases of electric-powered vehicles to curb air pollution in major Chinese cities. As a result of these initiatives, bus engine sales volume in China and our share of the bus market have gradually decreased. According to CAAM, the sales of electric-powered commercial vehicle increased by approximately 60.2% in 2016 to 139,060 units compared to 86,813 units in 2015 and it further increased by approximately 26.8% to 176,331 units in 2017. There was a corresponding decrease in sales of other fuel-powered vehicles which has affected our sales of diesel engines.

At the legislative session of the National People's Congress in March 2017, the Chinese government reiterated its push for greater use of new-energy vehicles and encouraged more innovation to accelerate the sector's development. According to the recent Chinese government's Work Report announced at the legislative session of the National People's Congress in March 2018, China will grant a three-year extension of the preferential policy for new energy vehicles and continue to explore the field of new energy vehicles. Since December 2016, China has gradually reduced subsidies for new-energy vehicles and expects to phase out all financial assistance by 2020. The entry of electric-powered vehicles into the commercial vehicle market in China is a relatively new development and is marked by new and changing technologies and evolving government regulation, industry standards and customer preferences, taking into account a variety of factors, for such vehicles compared with fossil fuel-powered vehicles. As such, it is difficult at this early stage of the market's development in China, to predict the growth and demand prospects for such vehicles.

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If the market for electric-powered vehicles continues to develop or develops more quickly than we expect, the additional competition resulted from the growing new energy vehicles development could reduce demand for our engines, which could adversely affect our business, financial condition, results of operations and prospects.

*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.

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 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. We have entered into the following joint ventures:

In August 2009, Yuchai reached an agreement with Jirui United Heavy Industry Co., Ltd. ( Jirui United ), 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. Production commenced in December 2010. Engine production reached 20,000 units for the first time in 2017, due to strong demand of heavy-duty trucks in China.

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 will produce 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-highway 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 engine produced in China.

In April 2007, Yuchai entered into an Equity Joint Venture Agreement with Zhejiang Geely Holding Group Co., Ltd ( Geely ) and Zhejiang Yinlun Machinery Company Limited to form two joint venture companies for the development, production and sale of the 4Y20 diesel engine and parts for passenger vehicles. In May 2012, Yuchai exited one joint venture in Zhejiang Province and increased its stake in the second joint venture in Jining, Shandong Province ( Jining Yuchai ) through a share swap agreement that gave Yuchai a 70% shareholding in Jining Yuchai, with Geely maintaining its 30% shareholding. In September 2014, Yuchai divested its entire 70% shareholding in Jining Yuchai but continued to consolidate the financial results of Jining Yuchai as a result of various contractual arrangements that allowed Yuchai to exercise effective control over Jining Yuchai. In November 2017, Yuchai acquired the entire equity interest in Jining Yuchai from an independent third party pursuant to the irrevocable option to acquire the shares in Jining Yuchai granted to Yuchai. Accordingly, Yuchai continues to consolidate the financial results of Jining Yuchai. See Note 3.1 to the accompanying consolidated financial statements in Item 18. The technology for the 4Y20 diesel engine is entirely owned by Jining Yuchai. In 2014, we recorded an impairment loss of RMB 60 million on the technology development costs relating to the 4Y20 engine platform for the year ended December 31, 2014. In 2015, we recorded a further impairment loss of RMB 26.7 million. No impairment was recorded in 2016 but in 2017, we recorded an impairment loss of RMB 40 million, and as of December 31, 2017, the accumulated impairment loss recorded on intellectual property relating to the 4Y20 technology was RMB 126.7 million. See Item 5. Impairment of long-lived assets, including goodwill and intangible assets.

We have developed natural gas engines to expand our product portfolio. There can be no assurance, however, that these activities will be profitable. Since 2013, Yuchai has produced a full portfolio of natural gas engines to complement its existing suite of diesel engines at its main manufacturing facility at Yulin City, Guangxi Zhuang Autonomous Region. The portfolio comprises natural gas engines for both on-road and

off-road applications, all of which are compliant with China's National V emission standards. For example, in January 2016, we announced the launch of an upgraded natural gas engine model compliant with National VI emission standards for on-road applications. In 2018, Yuchai launched four models of gas engines, YCS04N, YCK13N, YCK15N and

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YCA07N, compliant with National VI and Tier 4 emission standards for both on-road and off-road applications. The main applications of Yuchai's natural gas engines are in the bus, truck and power generator sectors. See Item 4. Information on the Company Business Overview Products and Product Development Yuchai Other products and services for more information on Yuchai's natural gas engines.

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.

The technological requirements to comply with National VI standards will require engine manufacturers to deploy significant resources on improving major engine components, systems and after treatment systems, in a relatively short period of time, which could lead to increased costs. Engine suppliers in the industry may face difficulty in implementing the emission upgrades in compliance with National VI emission standards for on-road vehicles.

There can be no assurance, however, that a sustainable market for natural gas vehicles will develop in China or in other countries around the world or that our initiative to increase our market share in the natural gas engine market will be successful or profitable. For example, in 2016, our sales of natural gas engines continued to decline primarily due to increased demand for electric-powered vehicles and a reduction in oil prices. In 2017, the demand for gas engine trucks has seen a recovery due to certain provinces in northern China implementing new policies restricting the running of diesel trucks.

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. For more information on Yuchai's research and development efforts, see Item 4. Information on the Company Business Overview Research and Development.

Our research and development efforts may not be successful and our new products 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.

***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 2015, Yuchai recorded engine sales of 364,567 units. In 2016, engine sales decreased to 320,424 units, a 12.1% decrease compared with 2015. In 2017, engine sales increased to 367,097 units, a 14.6% increase compared with 2016. 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 Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and

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the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy. 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.

*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 our results of operations, financial condition and cash flow, economic, political and other conditions in China, the Chinese government's policies relating to foreign currency borrowings and the condition of the Chinese and international capital markets. For example, China continued to experience a shortage of liquidity in its banking system in 2014 and 2015 causing the Chinese government to reduce its one year lending rate six times from 5.6% on November 21, 2014 to 4.35% on October 23, 2015. In addition, in 2015, the People's Bank of China (the PBOC) continued to lower the reserve requirements to be held by banks in an effort to inject liquidity into the economy in response to deflationary and increasing slowdown pressures. In February 2016, the PBOC announced the lowering of bank reserve requirements from 17.5% to 17% to support the economy at a time of elevated uncertainty in the midst of a persistently sluggish economy. In September 2017, the PBOC further lowered the bank reserve requirements by 0.5% to 1.5% for banks that meet certain lending criteria. 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.

*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 finance our business expansion and diversification plan. A portion of our borrowings may be structured on a floating rate basis and denominated in US dollar, Singapore dollar or Renminbi. In 2013, Yuchai issued the first tranche of RMB-denominated three year unsecured medium-term notes (MTNs) in China amounting to RMB 1.0 billion upon the receipt of approval from NAFMII, at an annual interest rate of 4.69%. The MTNs matured on May 30, 2016. In April and September 2015, Yuchai issued two tranches of ultra short-term bonds (USTB) amounting to a total of RMB 800 million at interest rates of 4.9% and 3.9% which matured on May 9, 2015 and June 13, 2016, respectively. See Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.

In 2015, there were significant reductions in interest rates for bank loans in China. For example, the interest rate varied between 5.6% and 4.35% in 2015 which affected our cost of funding and bill discounting, and our results of operations. In addition, following a period of unusually low interest rates, the U.S. Federal Reserve raised its benchmark interest rate in 2016 and 2017 and may further increase interest rates in the future. 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 Chinese government policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including US dollar, has been based on rates set by the PBOC. On July 21, 2005, China reformed its foreign exchange regime by moving into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies, such that the Renminbi was no longer pegged to the US dollar. On August 10, 2015, the PBOC introduced a change in the calculation of the Renminbi reference rate cutting its daily reference rate by 1.9 percent, in order to foster greater exchange rate flexibility. On December 1, 2015, the International Monetary Fund (the IMF) announced the inclusion of the Renminbi in the basket of currencies which make up the IMF's Special Drawing Right (SDR). This was the first time in over 15 years that the list of currencies comprising the SDR has been altered recognizing China's gradual integration into the world economy. On October 1, 2016, the Renminbi was officially included into the IMF's SDR alongside the US dollar, the Japanese yen, Euro and the British pound. From December 31, 2013 to December 31, 2017, the Renminbi depreciated about 7.5% against the US dollar. From December 31, 2013 to December 31, 2017, the Singapore dollar depreciated about 5.9% against the US dollar. 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.

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*If China's inflation increases or the prices of energy or raw materials 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.*

Economic growth in China has, in the past, been accompanied by periods of high inflation. The Chinese government has implemented various policies from time to time to control inflation. For example, the Chinese government has periodically introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies, increases in bank interest rates, and measures to curb inflation, which has resulted in a decrease in the rate of inflation. The global economic crisis resulted in a slowing of the rate of inflation in January 2009 and thereafter into negative territory until November and December 2009 according to the National Bureau of Statistics. According to the National Bureau of Statistics, the annual inflation rate for 2015, 2016 and 2017 was 1.4%, 2.0% and 1.6%, respectively, below the 3.0% target set by the Chinese government. On March 5, 2018, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the annual inflation rate target would be maintained at around 3.0% in 2018, the same inflation target as in 2016 and 2017. 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. Recently, concerns have arisen over deflationary pressures in China as a result of weak domestic demand. A prolonged period of deflation may result in falling profits, closure of businesses, shrinking employment and incomes and increasing defaults on loans by companies and individuals, any of which could adversely affect our business, financial condition or results of operations.

***We may be adversely affected by environmental regulations***

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 by the Chinese government 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.

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. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and strict enforcement of the standards was implemented nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection announced that all light petrol vehicles, light diesel buses and heavy diesel vehicles used for the purposes of public transportation, environmental sanitation and postal services must comply with National V emission standards from January 1, 2017. All other heavy diesel vehicles and all light diesel vehicles nationwide are required to comply with the National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced the Limits and Measurement Methods for Emissions from Light-Duty Vehicles (CHINA 6) that all light-duty gasoline and diesel-powered vehicles must comply with National VIa emission standards from July 1, 2020 and National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule. Yuchai produces diesel engines compliant with National IV and National V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards and develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier-2 and Tier-3 emission standards nationwide, respectively. Strict enforcement of the Tier-3 emission standards was implemented nationwide on December 1, 2016. The Tier-4 emission standards were implemented in Beijing and Shenzhen on January 1, 2015 and October, 2015, respectively. Yuchai is able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production volumes of such engines but continues to produce such engines solely for export from China. While Yuchai produces diesel engines compliant with the current emission standards in both the off- and on-road markets, Yuchai may be required to increase its research and development expenses in order to meet 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.

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*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 property and equipment and inventory. 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 do not currently carry third party liability insurance to cover claims in respect of bodily injury, property or environmental damage 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.

*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.

## **Risks relating to China**

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our financial condition, results of operations, business or prospects are subject, to a significant degree, to economic, political and legal developments in China. The economic system of China differs from the economies of most developed countries in many respects, including government investment, the level of development, control of capital investment, control of foreign exchange and allocation of resources.

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***Adverse changes in the economic policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and adversely affect our competitive position.***

Economic reform in China has been ongoing since its shift from a planned economy to a market-oriented economy in the 1970s. The Chinese government has implemented economic reform measures emphasizing decentralization, management autonomy and development driven by market forces. Although these reforms have resulted in economic growth and social progress, their effects on various geographic regions and economic sectors across China have been uneven.

On November 15, 2013, after the closure of the Third Plenum of the 18<sup>th</sup> Chinese Communist Party Congress, the new Chinese government issued a comprehensive reform document detailing extensive new social and economic policies with the primary aim to restructure and rebalance the economy to a more sustainable model by focusing more on domestic consumption away from investment and export fueled growth. On March 5, 2016, at the National People's Congress in Beijing, the growth target for China for the next five years from 2016 to 2020 was lowered to a range of between 6.5% to 7.0%. On March 5, 2018, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report maintained the growth target for China in 2018 at around 6.5%, the same growth target as 2017, despite higher growth in 2017.

The Chinese government remains committed to pursuing a range of reforms as laid out in its November 2013 reform document and the current leadership is expected to continue implementing new economic and social policies already announced and making further changes to existing policies as it continues to rebalance its economy. The Chinese government has implemented policies to control the rate of economic growth, manage inflation and otherwise regulate economic expansion. As periods of high inflation have accompanied economic growth, the Chinese government has, from time to time introduced industry-specific measures to avoid overheating of certain sectors, such as tightening bank lending policies, increasing bank interest rates, and seeking to curb real estate and stock market speculation and inflation. In recent times, in order to counteract slowing growth and a shortage of liquidity in its banking system, the Chinese government on a number of occasions reduced its one-year lending rate and lowered the reserve requirements to be held by banks in an effort to inject liquidity into the economy in response to deflationary and increasing slowdown pressures. See Item 3. Key Information Risk Factors Risks Relating to Our Company and Our Business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

The Chinese government is undertaking a number of strategic initiatives that may directly or indirectly affect demand for our products. These include the One Belt, One Road initiative to develop a network of railways, highways and other forms of infrastructure in the Eurasian area, the proposed Regional Comprehensive Economic Partnership, which is a proposed free trade agreement, and the establishment of a new development bank to support infrastructure development in the Asia-Pacific region. Further, in view of the increased focus on domestic consumption and services, further initiatives and changes to existing economic and social policies are expected to be announced and implemented by the Chinese government. Although we believe that the economic initiatives, policies, measures and reforms adopted by the Chinese government will continue to have a positive long-term effect on economic development in China and that we will continue to benefit from these policies, measures and reforms, such government actions may, from time to time, be modified or reversed or have an adverse effect on the price of diesel and diesel-using products and the diesel engine market in general. Adverse changes in the Chinese laws, regulations or policies could have a material adverse effect on the overall economic growth of China and infrastructure investment in China. These developments could adversely affect our business, financial condition and results of operations.

***Adverse economic developments in China or elsewhere in the Asian region could have a material adverse effect on our financial condition, results of operations, business or prospects.***

According to the World Bank's Global Economic Prospects issued in January 2018, global growth in 2017 increased to 3.0% from 2.4% in 2016, due to a broad-based upturn in more than half of the world's economies. According to the World Bank's Global Economic Prospects issued in January 2018, growth in China was estimated to have reached 6.8% in 2017 and is expected to decelerate to 6.4% in 2018 and to an average of 6.3% in 2019 and 2020 reflecting financial sector vulnerabilities, the possibility of increased protectionist policies in advanced economies and rising geopolitical tensions. Reported by the National Bureau of Statistics, China's economy expanded 6.7% in 2016, the slowest rate since 1990. On January 18, 2018, the National Bureau of Statistics reported that, China's GDP growth was 6.9% in 2017, the fastest since 2015 and beating the country's expectation of around 6.5%. Although the growth in China continues to be gradual, downside risks to growth exists. For more information on the Chinese economy, see Item 3. Key Information Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.



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***The Chinese legal system embodies uncertainties which could limit the legal protection available to foreign investors.***

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedent value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general including, for example, with respect to corporate organization and governance, foreign investments, commerce, taxation and trade. Since China's economic reform and opening-up in late 1970s, legislation has significantly enhanced the protection afforded to various forms of foreign investment in China. The laws, regulations and legal requirements relating to foreign investment are relatively recent and are still evolving, and their interpretation and enforcement involve uncertainties and may not be consistent or predictable as in other more developed jurisdictions which may limit the legal protection available to foreign investors.

Our operations in China are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in the United States, Hong Kong or other developed countries or regions. In addition, the interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As China's legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse effect on our prospects, financial condition and results of operations.

***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 includes dividends, trade and service-related foreign exchange transactions, but not under the capital account, which includes, 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. On December 11, 2015, China announced the convertibility of Renminbi on its capital account within a prescribed limit of US\$10 million for the free-trade zones of Tianjin, Guangdong and Fujian, an initial step towards the opening of its capital account.

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 Chinese 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. 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,

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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. We can give no assurance as to the effect of changes in Renminbi and foreign currency regulations on our business, financial condition and results of operations.

***Outbreaks of communicable diseases in various parts of China and other countries 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. For example, in 2003, several countries, including China, experienced an outbreak of a highly contagious form of atypical pneumonia known as severe acute respiratory syndrome ( SARS ), which severely restricted the level of economic activity in affected areas and had an adverse impact on the sale of engines, particularly during the second and third quarters in 2003. In 2009, an outbreak of H1N1 flu first occurred in Mexico and quickly spread to other countries, including China. In addition, an infectious strain of influenza known as the H5N1 Avian flu has been reported from time to time in China, Hong Kong, Vietnam, and other parts of Asia. More recently, a new strain of Avian flu (H7N9) was reported in China and a new virus known as the novel coronavirus, NCoV, was reported in the Middle East and other parts of the world. Beginning in 2014, the largest Ebola virus outbreak in history affected numerous countries in West Africa and led to various reported cases of Ebola around the world. Beginning in April 2015, outbreaks of Zika fever caused by the Zika virus were recorded in countries in South and Central America, Mexico and the Caribbean. On February 1, 2016, the World Health Organization ( WHO ) declared the virus and its suspected link to birth defects to be an international public health emergency. According to the March 2017 situation report of the WHO, no new countries had reported vector-borne Zika virus infections for the first time since February 1, 2017. Although a decline in cases of Zika infection has been reported in some countries, or in parts of some countries, a high level of continuing vigilance is required.

The outbreak of 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. Since most of our operations and customers and suppliers are based in Asia, an outbreak of these or any other communicable diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected could adversely affect our business, financial condition or results of operations.

***Our auditor engages its China-based affiliate to audit our China entities. Because registered public accounting firms in China, including our auditor's China-based affiliate, are not permitted under Chinese law to be inspected by the U.S. Public Company Accounting Oversight Board, investors may be deprived of the benefits of such inspection.***

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 U.S. Public Company Accounting Oversight Board (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. Our auditor engages its China-based affiliate to audit our China entities and China is a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission (the CSRC ) and the China Ministry of Finance (the China MoF ) to establish a cooperative framework for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the China MoF in the United States and China. However, as of February 28, 2018, the parties had not reached a definitive agreement to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. stock exchanges. During its Standing Advisory Group meeting on November 12th and 13th, 2015, the PCAOB affirmed its commitment to reaching an agreement with the CSRC and the China MoF to conduct inspections in China although the process has proven more difficult than originally anticipated.

The inability of the PCAOB to conduct inspections of the China-based affiliate of our independent registered public accounting firm makes it more difficult to evaluate the effectiveness of such affiliate's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections, and investors and potential investors in our stock may lose confidence in our audit procedures, reported financial information and the quality of our financial statements, which may adversely affect the market price of our shares.

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*If additional remedial measures are imposed on the Chinese affiliates of five global 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.*

In December 2012, the SEC commenced administrative proceedings under the Securities Exchange Act and the Sarbanes-Oxley Act against the Chinese affiliates of five global accounting firms (the Chinese Firms), including the China-based affiliate of our independent registered public accounting firm, for their failure to respond to the SEC's request to produce audit work papers of nine U.S. listed Chinese companies suspected of potential accounting fraud. The Chinese Firms asserted that they were unable to comply with the SEC's requests because doing so would constitute violations under Chinese law. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the Chinese Firms.

Further to the administrative proceedings commenced by the SEC, on January 22, 2014, an initial administrative law decision was rendered. The Administrative Law Judge (ALJ) held that the Chinese Firms had acted willfully and with a lack of good faith by refusing to comply with the SEC's document requests and imposed on four of the Chinese Firms including the Chinese affiliate of our independent registered public accounting firm, a six-month suspension from practicing before the SEC. The decision of the ALJ is not legally effective until after the SEC has issued a final decision. The four Chinese Firms appealed the ALJ's initial decision to the SEC.

In a settlement reached with the SEC on February 6, 2015, four of the Chinese Firms, including the Chinese affiliate of our independent registered public accounting firm (Settling Firms) agreed to pay a fine to the SEC and admit that they did not produce documents to the SEC as requested. The Settling Firms subsequently provided the requested documents to the SEC through assistance rendered by the China Securities Regulatory Commission and agreed to abide by certain procedures set forth in the settlement order with respect to future requests for documents by the SEC over the next four years. If the Settling Firms abide by the procedures set forth in the settlement order, the administrative action will be dismissed after the four-year period. The SEC also withdrew ALJ's six-month suspension order.

Although a settlement order has been reached with the Settling Firms, including the China-based affiliate of our independent registered public accounting firm, should future document productions fail to meet the specified criteria set out in the order, the SEC has the authority to impose a variety of additional remedial measures on the non-complying party. These measures include an automatic six-month bar on a party's performance of certain audit work, commencement of a new proceeding against a party or the resumption of the current proceedings against all Settling Firms. Any non-compliance with the terms of the settlement order by any of the Settling Firms may result in it being denied, temporarily or permanently, from practicing before the SEC. In such an event, U.S. listed companies with major China operations such as us may find it difficult or impossible to retain auditors for their China operations and timely meet their reporting obligations in compliance with SEC requirements under the Exchange Act, which may ultimately result in the delisting of their common stock from U.S. stock exchanges. In addition, any negative news about the proceedings against the Settling Firms may erode investor confidence in China-based, U.S. listed companies which could adversely affect the market price of our shares. Although the CSRC continues to be in discussions with the SEC, PCAOB and other regulators on the production of audit work papers by China-based accounting firms, we cannot predict the outcome of such discussions and its resultant impact on the Settling Firms.

**Risks relating to our investment in HLGE**

The HLGE group operates Copthorne Hotel Cameron Highlands (CHCH), a hotel in Cameron Highlands, Malaysia. As of February 28, 2018, 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 hotel ownership and management business may be adversely affected by risks inherent in the hotel industry.*

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:

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);





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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;

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;

the outbreak of communicable diseases (see Item 3. Key Information Risk Factors Risks Relating to China Outbreaks of communicable diseases in various parts of China and other countries may materially and adversely affect our business, financial condition and results of operations. ); and

adverse effects of a downturn in the hospitality industry.

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.

***The hospitality business is a regulated business.***

The operation of hotels in Malaysia is subject to various laws and regulations. The withdrawal, suspension or non-renewal of any of the hotels licenses, or the imposition of any penalties, as a result of any infringement or non-compliance with any requirement, will have an adverse impact on the business and results of operations of CHCH. Further, any changes in such laws and regulations may also have an impact on the businesses at the hotels and result in higher costs of compliance. In addition, any failure to comply with these laws and regulations could result in the imposition of fines or other penalties by the relevant authorities. This could have an adverse impact on the revenues and profits of HLGE group or otherwise adversely affect the operations of CHCH.

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### **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 BNY Mellon Shareowner Services, located at 480 Washington Blvd., 29th 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. China Everbright Holdings is a state-owned enterprise of China. 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 State Holding Company.

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.

To our knowledge, since January 2017, there have not been any public takeover offers by third parties in respect of shares of our Common Stock, nor have we made any public takeover offers in respect of the shares of other companies.

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:

In March 2005, we acquired a 15.0% interest in the capital of TCL through our wholly-owned subsidiary, Venture Delta. Our shareholding in TCL has since changed through various transactions, and as of December 31, 2012, we had a 12.2% interest in the outstanding ordinary shares of TCL, which has further reduced to 7.7% as of December 31, 2013 and has since remained unchanged as of February 28, 2018.

In February 2006, we acquired debt and equity securities in HLGE through our wholly-owned subsidiaries, Grace Star, and Venture Lewis Limited ( Venture Lewis ). 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, 2018. 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.

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As of February 28, 2018, 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.

As of February 28, 2018, through our wholly-owned subsidiary, Venture Delta, we had a 7.7% equity interest in TCL. The TCL group invests directly or with co-investors in real estate and other investment opportunities which include property-backed financial instruments. For more details on our investments in HLGE and TCL, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

### **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 original equipment manufacturers ( OEMs ) and retailers and provides maintenance and retrofitting services throughout China.

Yuchai was founded in 1951 and became a state-owned enterprise in 1959. 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 6105 (YC6J) medium-duty diesel engine for medium-duty trucks. In July 1992, in order to raise funds for further expansion, Yuchai became the first state-owned enterprise in the Guangxi Zhuang Autonomous Region to be 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 State Holding Company. The State Holding Company also became the majority shareholder of Yuchai through its ownership stake of approximately 104 million shares of Yuchai, or State Shares. The State Holding Company is owned by the Yulin City government. 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, or Foreign Shares, and became a Sino-foreign joint stock 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., or GSCP, 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 Yuchai Shares). 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 State Shares and Legal Person Shares. State 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 State 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.

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.



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In connection with our purchase, through our six wholly-owned subsidiaries, of additional Foreign Shares in Yuchai 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 State Holding Company 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 State Holding Company 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 State Holding Company 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 State Holding Company informed the shareholders of Yuchai that it had determined not to subscribe for additional Yuchai Shares and this determination was noted by the Yuchai 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 State Holding Company, 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 State Holding Company. 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 State Holding Company. 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 State Holding Company 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.

**Table of Contents****Business Overview****Emission Standards**

The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and strict enforcement of the standards nationwide commenced on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection announced that all light petrol vehicles, light diesel buses, and heavy diesel vehicles used for the purposes of public transportation, environmental sanitation and postal services must comply with National V emission standards from January 1, 2017. All other heavy diesel vehicles and all light diesel vehicles nationwide are required to comply with the National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced the Limits and Measurement Methods for Emissions from Light-Duty Vehicles (CHINA 6) that all light-duty gasoline- and diesel-powered vehicles must comply with National VIa emission standards with effect from July 1, 2020 and all diesel-powered vehicles must comply with National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule.

Yuchai produces diesel engines compliant with National IV and V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier-2 and Tier-3 emission standards nationwide, respectively. Strict enforcement of the Tier-3 emission standards was implemented nationwide on December 1, 2016. The Tier-4 emission standards were implemented in Beijing and Shenzhen on January 1, 2015 and October 1, 2015, respectively. Yuchai is able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production of such engines but continues to produce such engines solely for export from China.

**Products and Product Development Yuchai**

Yuchai manufactures diesel and natural gas engines for light-, medium- and heavy-duty trucks, buses and passenger vehicles, marine and industrial applications and generator sets. Yuchai also manufactures diesel engines for construction and agriculture applications and is a supplier of after-market parts and services.

Yuchai intends to improve its competitiveness across all current engine platforms, including light-, medium- and heavy-duty engines. Yuchai is focusing on higher emission standard engines, which are relatively higher margin products compared to traditional mechanical diesel engines. We have developed and commenced production of these high emission standard engines prior to the implementation dates for such standards in China.

Yuchai is also expanding its production and research and development capabilities in natural gas engines in order to meet the growing demand in the natural gas engine market in China and provide a full range of natural gas engines to complement all of its current diesel engine models. Yuchai is also extending its high horse power marine diesel and power generator engines to cover engines from 16 liters up to 107 liters.

***New Products***

In 2018, we announced the launch of 14 new engine models compliant with National VI and Tier-4 emission standards for both on-road and off-road applications, which are YCY20, YCY24, YCY30, YCS04, YCS04N, YCS06, YCK05, YCK08, YCK09, YCK11, YCK13, YCK13N, YCK15N AND YCA07N. All these products are under development and are subject to performance testing and trail run at OEM vehicles and machineries, and are expected to be available for commercial delivery early 2019.

- (a) The YCY20 engine compliant with National VI emission standards is for use in passenger vehicle, light-duty buses and pick-up trucks. It has a displacement volume of 2.17 liter and a maximum power output of 150 Ps with a maximum torque of 350 N-m.



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- (b) The YCY24 engine compliant with National VI emission standards is for use in passenger vehicle 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.
- (c) 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.
- (d) 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.
- (e) The YCS04N natural gas 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 118 Ps with a maximum torque of 600 N-m.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) The YCK11 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailers, highway coach and buses over 10m. It has a displacement volume of 10.84 liter and a maximum power output of 460 Ps with a maximum torque of 2200 N-m.
- (k) The YCK13 engine compliant with National VI emission standards is for use in heavy-duty trucks and trailer, and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 560 Ps with a maximum torque of 2500 N-m.
- (l) The YCK13N natural gas engine compliant with National VI emission standards is for use in heavy-duty trucks and highway coaches. It has a displacement volume of 12.94 liter and a maximum power output of 324 Ps with a maximum torque of 2100 N-m.
- (m) The YCK15N natural gas engine compliant with National VI emission standards is for use in heavy-duty trucks and highway coaches. It has a displacement volume of 15.26 liter and a maximum power output of 390 Ps with a maximum torque of 2500 N-m.
- (n) The YCA07N natural gas engine compliant with National VI emission standards is for use in medium-duty industrial machinery drive. It has a displacement volume of 6.87 liter and a maximum power output of 191 Ps with a maximum torque of 1000 N-m.

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In 2017, Yuchai launched an 8 cylinders YC8CL engine mainly for use by river and coastal general cargo vessels (see Item 4. Information of the Company Business Overview Products and Product Development-Yuchai Existing Diesel Engine Products High Horsepower Marine Diesel Engines and Power Generator Engines. ).

In 2016, we announced the launch of four new engine models which are the YC4Y22-50, YC6K13-50, YC6JN-60 and the YCHPS hybrid engine.

- (a) The YC4Y22-50 engine compliant with National V emission standards is for use in light-duty buses and pick-up trucks. It has a displacement volume of 2.17 liter and a power range of 120 to 150 hp with a maximum torque of 360 N-m.

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- (b) 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) The YC6JN-60 is a natural gas engine compliant with National VI emission standards. The engine is ideal for use in regular and hybrid public transportation buses, highway and tour buses, and various municipal vehicles.
- (d) 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.

**Existing Diesel Engine Products**

Our existing diesel engine products include light-duty, medium-duty and heavy-duty engines. The following table sets forth Yuchai's list of engines by application:

	Series
Trucks	YC4D, YC4E, YC4FA, YC4FQ, YC4DN, YC4S, YC6A, YC6J, YC6JN, YC6K, YC6K13, YC6KN, YC6L, YC6MK, YC6MKN, YC6LN.
Bus	YC6MK, YC6MKN, YC6L, YC6J, YC6JN, YC6G, YC6GN, YC6LN, YC6K, YC6KN, YG6A, YC4G, YC4GN, YC4E, YC4EG, YC4D, YC4DN, YC4FA, YC4FQ, YC4S
Construction	YC4A, YC4D, YC4DN, YC4F, YC4G, YC4GN, YC6B, YC6J, YC6JN, YC6G, YC6L, YC6LN, YC6A
Agriculture	YC4A, YC4FA, YC6A, YC6B, YC4D, YC6J, YC6L
Marine	YC4D, YC4F, YC4FA, YC6A/6B, YC6T, YC6TD, YC6C, YC6CL, YC6CD, YC8CL, YC12VC, YC6MK
Generator-Drive	YC4R, YC4FA, YC4F, YC4D, YC6A, YC6G, YC6L, YC6LN, YC6MK, YC6MJ, YC6T, YC6C, YC6CL, YC12VC, YC16VC, YC6MKN, YC6K, YC6KN
Other	YC4W, YC4Y, YC4FB

**(a) Light-Duty Diesel Engines**

Trial production of the 4-Series light-duty 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-Series engines to meet National IV emission standards have resulted in higher customer acceptance resulting in consistent sales demand since 2005.

Our line of 4-Series light-duty diesel engines consists of the following:

The upgraded YC4A-T-30 engine is designed for agriculture application. This engine improves the heat transfer efficiency of the cooling system by more than 30%, and uses a high pressure injection mechanical in-line pump and exhaust gas recirculation ( EGR ) technology. It is also compliant with Tier-3 emission standards for off-road applications.

The YC4D engine was launched in the market in 2001 based on YC6A and YC6B engines. The YC4D engine is designed for light trucks and passenger vehicles.

The YC4G engine was primarily based on the YC6G engine and is designed for use in light to medium-duty cargo trucks and buses. The YC4G engine also features low emission characteristics.

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The YC4F/YC4FA/YC4G engine is a 4-cylinder, four-stroke engine with a rated power ranging from 90 to 115 PS. The 4F/4FA/4G diesel engines were developed based on technologies from Germany and Japan for mini buses, trucks and passenger cars.

The YC4FQ-48 engine compliant with National IV emission standards is for use in light-duty trucks. With a 2.5 liter displacement, it is lighter in weight with an improved cooling system compared with the model YC4FA engine. This new model utilizes high-pressure common rail, EGR, diesel oxidation catalyst ( DOC ) and diesel particle filter ( DPF ) technologies.

The YC4D/YC4E engine is a 4-cylinder, four-stroke engine with a rated power ranging from 120 to 180 PS. The YC4D diesel engine was 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. The YC4E series diesel engine was developed on the basis of the YC6G series diesel engine with a displacement of 7.8 liters through stroke-shortening and bore-reducing which maintains advantages over the YC6G series diesel engines and features higher dynamic characteristics, easier operation and maintenance, and is used in high-speed and light-duty vehicles. In addition, the YC4D-T30 engine for the loader, excavator and forklift markets is compliant with Tier-3 emission standards for off-road applications.

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The YC4G was also further developed to be used in hybrid buses. This relatively small diesel engine coupled with a motor will enable the hybrid bus to power medium to large buses and at the same time reduce fuel consumption and emissions. The YC4G is rated at 170 to 220 PS.

The YC4EG-50 diesel engine contains a 4.73 liter engine for medium-duty buses and light- and medium-duty highway trucks. It is compliant with National V emission standards.

The YC4S engine at 3.8 liter is rated at 55 to 170 PS and its main applications are in highway vehicles and industrial engines. The YC4S engine is certified compliant with National IV emission standards for on-highway use and Tier-2 emission standards for the industrial market.

The YC4S engine's upgraded model YC4S-48 was introduced for the high-end, light-truck market. This model targets the mid- and high-end, on-road vehicles with a load capacity between five to eight metric tons. It generates 88 to 110 kW power using a common rail system paired with Exhaust Gas Recirculation (EGR), Diesel Oxidation Catalyst (DOC) and Particulate Oxidation Catalyst (POC) technologies.

In addition, the YC4S-50 upgraded diesel engine has a 3.76 liter engine for use in medium- to heavy-duty trucks and buses. It is compliant with National V emission standards.

The YC4Y22-50 diesel engine has a 2.2 liter engine for use in light-duty trucks and buses. It is compliant with National V emission standards.

The YC4FQ-48 engine compliant with National IV emission standards is for use in light-duty trucks. With a 2.5 liter displacement, it is lighter in weight with an improved cooling system compared with the model YC4FA engine. This model utilizes high pressure common rail, EGR, diesel oxidation catalyst (DOC) and diesel particle filter (DPF) technologies.

The YC4FAN-50 natural gas engine is designed to be used in light-duty vehicles. It is compliant with National V emission standards.

### ***(b) Medium-Duty Diesel Engines***

#### ***YC6J Diesel Engines***

The YC6J medium-duty engine is a 6-cylinder, four-stroke engine that offers up to 230 PS. The YC6J engine was historically Yuchai's primary product and was principally installed in medium-duty trucks. Yuchai believes that its YC6J engine has a reputation for fuel efficiency, low noise levels, firm uphill traction and reliability.

The hybrid YC6J engine was launched in October 2010 for use in public buses. The YC6J National IV compliant 6.5 liter, 6-cylinder, 132 to 180 kW, 2500 rpm diesel engine uses BOSCH electronic controlled high-pressured common-rail fuel injection technology. These engines are suitable for use in coaches of eight to 11 meters in length.

Yuchai has also developed YC6J natural gas variants, including both compressed natural gas (CNG) and liquefied natural gas (LNG) systems, using similar major components as diesel engines. Yuchai is a market leader in developing diesel engines which are mainly used in public buses. The natural gas versions will complement the current diesel engine lines used in public buses enabling a reduction in emissions. The YC6J is also developed to work with battery-powered motors in hybrid buses which will help to reduce fuel consumption and emissions.

The YC6J engines previously compliant only with National IV emission standards have been upgraded to meet the National V emission standards with improved fuel efficiency and performance. In addition, the YC6J-T30 for the loader, excavator and forklift markets is compliant with Tier-3 emission standards for off-road applications.

#### ***YC6A and YC6B Diesel Engines***

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In response to the introduction of high-power medium-duty engines by its competitors in 1995, Yuchai began the development of its YC6A and YC6B medium-duty engine which offers improved overall performance compared to the YC6J engine, principally because of greater horsepower, increased reliability and improved acceleration.

The YC6A National IV compliant 6-cylinder, 4-valves, 162 to 225 kW, 2300 rpm diesel engine uses BOSCH electronic controlled high-pressured common-rail fuel injection technology. Its main applications are in medium-sized trucks, construction machines, boats, generators, and agricultural machinery.

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The YC6A engines have been upgraded to meet the National IV emission standards with improved fuel efficiency and performance.

### *YC6G Diesel Engines*

YC6G National IV compliant 7.8 liter, 6-cylinder, 147 to 199 kW, 2000 to 2200 rpm diesel engine uses DELPHI electronic controlled high-pressure common-rail fuel injection technology. Yuchai has also developed variants that use CNG or LNG as fuel, using similar major components. Its main applications are for buses and coaches of 11 to 12 meters in length.

### **(c) Heavy-Duty Diesel Engines**

#### *YC6G Heavy-Duty Diesel Engines*

The YC6G heavy-duty engine is a 6-cylinder, four-stroke engine with a rated power ranging from 190 to 270 PS.

#### *6L Heavy-Duty Diesel Engines*

The 6L heavy-duty engine is a National IV and V compliant 6-cylinder, four-stroke, turbocharged intercooling engine, with a rated power ranging from 280 to 350 PS. The 6L heavy-duty engine was co-developed with FEV, an independent German-owned engine development institute for big passenger buses.

The YC6L-60 diesel engine is Yuchai's newest engine compliant with National VI emission standards. This engine is a high-end model of the YC6L heavy-duty platform. It has a power range between 177 to 243 kW and is designed for use in buses between ten to 12 meters and trucks that carry loads of between 25 to 40 metric tons. Improvements to the engine include medium cooling exhaust gas recirculation technology, innovative diesel particle filter and efficient SCR technologies.

#### *6MK Heavy-Duty Diesel Engines*

The 6MK heavy-duty engine family for heavy-duty trucks and passenger buses 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 on-road trucks and buses that is compliant with National V emission standards.

#### *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.

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### *YC6K Diesel Engines*

The YC6K 6-cylinder diesel engine is National IV and National V compliant, has a capacity of between 10/12/13 liter and is rated at 380 to 550 PS. The components and combustion systems of the engine are developed with the latest technology and are suitable for use in heavy-duty trucks and for coaches exceeding 12 meters in length. The YC6K is the product of a joint venture company which was established in 2009 pursuant to an agreement Yuchai entered into with Jirui United to produce heavy-duty vehicle engines with the displacement range from 10.5 to 14 liter. For more details on the joint venture company, see Item 3. Key Information Risk Factors Risks relating to our company and our business 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 may be adversely affected.

### *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.

### ***(d) High Horsepower Marine Diesel Engines and Power Generator Engines***

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 generation engine models.

YC6T is a 6-cylinder engine rated at 360 to 600 PS and is suitable for construction applications. It was launched in early 2011 and is used in marine propulsion, power generators, construction and mine trucks. The YC6T engine rated 404 to 440kW at 1500 rpm is for power generation, while those rated 290 to 396 kW at 1500 to 1800 rpm are for marine applications and those rated 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. The YC6CL engine is a 54 liter engine rated at 800 to 1200 PS.

YC12VT is derived from the YC6T engines where the V-engine enables the engine to have a compact configuration. The engine is 12 cylinders, 33 liter rated at 538 to 645 kW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VT is expected to be 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 cylinders, 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 the last quarter of 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 cylinders, 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.



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YC8CL is an extended version of YC6CL engine, with 8-cylinder in line configuration. YC8CL is an 8 cylinders, 72.8 liter engine rated at 692-1176kW at 750-1000 rpm. The main application is marine propulsion for river trade and costal general cargo vessels. The YC8CL was officially launched in mid-2017.

### ***Other Products and Services***

Our other products are YC4W, YC4Y diesel engines, natural gas engines, diesel power generators, diesel engine parts and remanufacturing services.

#### *(a) YC4W Diesel Engines*

The YC4W engines are featured with 1.2 liter and 1.4 liter 4-cylinder, 4-valves, 60 to 90 PS, 4000 to 4200 rpm and are compliant with National IV emission standards. The YC4W diesel engines use DELPHI electronic controlled high pressure common-rail fuel injection technology. The main applications of these engines are in multi-purpose vans, power generators and light-duty special purpose machinery.

**Table of Contents***(b) YC4Y20 Diesel Engines*

YC4Y20 is a 4-cylinder 1.8 to 2.2 liter, rated at 90 to 150 PS engine which has been developed to comply with emission standards. The first generation prototype engine passed emission and performance tests and after some initial delays, the second and third generation prototype YC4Y20 diesel engines are currently undergoing developmental tests. For more details on this joint venture, see Item 3. Key Information Risk Factors Risks relating to our company and our business If we are not able to continually improve our existing engine products and develop new diesel engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects may be adversely affected.

*(c) YC4FB Light duty vehicle Diesel Engines*

YC4FB is a 4-cylinder 2.488 liter, rated at 90 to 130 PS engine which was developed for light duty vehicle such as light duty bus and pick-up truck applications. The engine was designed to comply with National IV and National V emissions standards with electronic controlled fuel combustion system.

*(d) Off-road Engines*

We manufacture off-road engines for various applications by modifying the vehicle engine design for specific off-road engine requirements. Since distribution of Tier-2 compliant diesel engines was prohibited in China with effect from October 1, 2015, we have launched various Tier-3 compliant diesel engines for both construction and agricultural applications. The new engines meeting Tier-3 emission standards are:

the YC6G220L-T31 series with a 7.8 liter engine featuring a turbocharged inter-cooling system and an electronically controlled fuel injection system to enable quick adjustments to the engine's power and torque;

the YC4FA45-T30 series featuring a mechanical rotary pump, with a faster response and low fuel consumption. This model has been awarded the e-mark certificate allowing for marketing into the European Union;

the YC6J-T30 and YC4D-T30 models are both upgraded versions of the Tier-2 model with the latest fuel combustion system. The YC6J-T30 engine is a 6.5 liter engine with design output of 92 to 132 kW and has primarily construction and agricultural applications. The YC4D-T30 is a 4.2 liter engine with design output of 58 to 75 kW, and has mainly construction applications for us in loaders, excavator and heavy-duty forklifts.

*(e) Natural Gas Engines*

Yuchai has a facility at its primary manufacturing facility in Yulin City, Guangxi Zhuang Autonomous Region, to develop and produce a full 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: YC4DN, YC4GN, YC6BN, YC6JN, YC6GN, YC6LN, YC6MKN, and YC6KN ranging from 120 to 440 hp.

*(f) Plug in hybrid engine*

Yuchai also introduced its second-generation hybrid engine; model YCHPT II, 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.

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.

In 2016, Yuchai launched its first plug-in gas hybrid system in China for medium duty-trucks.

*(g) Diesel Power Generators*

Yuchai has a history of more than 40 years for producing the diesel generator set, with wide application in the civil, military and marine sectors. Yuchai produces diesel power generators which are primarily used in the construction and mining industries. 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.

**Table of Contents***(h) 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.

*(i) 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 and electric vehicle components. Since 2010, Yuchai has offered in-house developed hybrid engines, and the latest model was a gas engine plug-in hybrid for truck application.

**Sales**

In 2017, according to CAAM, engine sales for commercial vehicles (excluding gasoline-powered and electric-powered vehicles) in China was approximately 3.1 million units, an increase of 16.9% compared to 2016. Yuchai's total engine sales in 2017 were 367,097 units, an increase of 14.6% compared with 320,424 units in 2016.

Light-duty engine sales in 2017 was 213,269 units, or 58.1% of total unit sales, which was a decrease of 5.0 percentage points compared to 63.1% in 2016, when light-duty engine sales were 202,168 units. Medium-duty engine sales were 90,445 units, or 24.6% of total unit sales, compared to 2016 where sales were 74,309 units or 23.2% of total unit sales. Heavy-duty engine sales was 62,652 units, or 17.1% of total sales units, compared to 2016 where sales were 43,764 units, or 13.7% of total unit sales.

In 2017, Yuchai sold approximately 26,298 natural gas engine units compared with approximately 17,295 units sold in 2016. The following table sets forth a breakdown of Yuchai's sales by major product category for fiscal years 2015, 2016 and 2017:

	2015			2016			2017		
	Revenue	% of	Unit	Revenue	% of	Unit	Revenue	% of	Unit
	RMB 000	Revenue	Sold	RMB 000	Revenue	Sold	RMB 000	Revenue	Sold
Light-duty engines <sup>(1)</sup>	5,319,675	38.9%	241,277	4,929,472	36.2%	202,168	5,335,694	33.0%	213,269
Medium-duty engines <sup>(2)</sup>	3,100,551	22.7%	79,519	3,028,997	22.3%	74,309	3,501,418	21.7%	90,445
Heavy-duty engines <sup>(2)</sup>	2,679,378	19.6%	43,697	2,972,022	21.9%	43,764	4,328,827	26.8%	62,652
Other products and services <sup>(3)</sup>	2,572,327	18.8%	74	2,667,996	19.6%	183	2,999,306	18.5%	731
	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424	16,165,245	100.0%	367,097

<sup>(1)</sup> Includes passenger car engines.

<sup>(2)</sup> Includes natural gas engines.

<sup>(3)</sup> Includes power generator sets 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-duty, medium-duty and heavy-duty engine models, a new natural gas production facility, a new high horse power marine diesel engine and power generator plant, a new foundry and various testing and supporting facilities. In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd. ( Xiamen Yuchai ) in Xiamen, Fujian Province, in China. This subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, mainly for 6-cylinder heavy-duty diesel engines. In October 2015, we announced that Yuchai had disposed of its 100% shareholding interest in Xiamen Yuchai. As a result of the disposal, Yuchai's production facilities are now located primarily in Yulin City.

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As of December 31, 2017, Yuchai's total technical production capacity was approximately 596,250 units, same as 2016, based on a 2.5 shift five-day week at 80% utilization rate.

In 2017, we sold 367,096 units, of which 365,266 units were produced at Yuchai's Yulin facility, and the remaining units sold were produced by our joint venture company, third party manufacturers and taken from existing inventory.

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, 2015, 2016 and 2017:

	2015		2016		2017	
	Units	% of Units	Units	% of Units	Units	% of Units
Light-duty engines <sup>(1)</sup>	210,290	63.2%	183,590	60.6%	209,832	57.4%
Medium-duty engines <sup>(2)</sup>	76,926	23.1%	76,686	25.3%	98,248	26.9%
Heavy-duty engines <sup>(2)</sup>	45,551	13.7%	42,387	14.0%	56,918	15.6%
Power generator sets	40	0.0%	380	0.1%	268	0.1%
	332,807	100.0%	303,043	100.0%	365,266	100.0%

<sup>(1)</sup> Includes passenger car engines.

<sup>(2)</sup> Includes natural gas engines.

*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 product.

*Engine Block*

Yuchai cast and molded more than 410,000 units of engine blocks in 2017 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 Risks relating to our company and our business If China's inflation increases or the prices of energy or raw materials 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.

*Imports*

Certain engine components are imported from foreign suppliers, such as the electronic combustion system and its software, and the exhaust after-treatment components. A majority of the remaining parts are purchased from domestic suppliers. Yuchai has progressively reduced its reliance on imported parts and components since 2006 and intends to continue to do so. Yuchai has a policy of practicing sound procurement policy by requiring the same product procurement 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.

*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.

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### ***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, foreign engine design consulting firms and foreign diesel engine and engine parts manufacturers. In 2015, 2016 and 2017, Yuchai spent approximately RMB 507.0 million, RMB 588.0 million and RMB 608.2 million (US\$96.1 million), respectively, on research and development. In 2015, Yuchai's research and development efforts were mainly related to the development of new and existing engine products compliant with National V emission standards for the truck and bus segments, and developing engine products compliant with Tier-3 emission standards for off-road applications. R&D expenses were also incurred on further developing high horsepower marine and power generator engines and upgrading of the YC6C engine series for dual fuel operations. In 2016, Yuchai's research and development efforts were mainly related to the development of new and existing engine products compliant with National V and National VI emission standards for on-road applications, engine products compliant with Tier-4 emission standards for off-road applications and its first plug-in gas hybrid engine compliant with National V emission standards in China for the truck segment. In 2017, Yuchai's research and development efforts were mainly related to the upgrading of existing on-road and off-road products compliant with National V and Tier 3 emission standards and the development of new engine products compliant with forthcoming National VI and Tier 4 emission standards. In 2017, Yuchai also commenced the development of new energy vehicle power systems, including a third-generation hybrid engine and electric vehicle power systems.

As a result of its research and development efforts, Yuchai has a large patent portfolio with over one thousand patents registered in China since 2004. The types of patents that Yuchai has registered are invention patents, utility model patents and design patents. The term of patent protection is ten 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 foreign engine design consulting firms and foreign 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 foreign manufacturing equipment and technologies. See Item 3. Key Information Risk Factors Risks relating to our company and our business 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 most 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 782 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 television commercials, outdoor sign boards, advertisements in newspapers and industry journals. 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. In relation to those engines 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 by its 2,826 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.

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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.

Yuchai's sales are concentrated among the Dongfeng Group, one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Group. In 2016, sales to the Dongfeng Group accounted for approximately 26.3% of Yuchai's total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Automobile Co., Ltd., accounted for 13.8%. In 2017, sales to the Dongfeng Group accounted for approximately 29.9% of Yuchai's total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co, Ltd. company), accounted for 15.1%. The Dongfeng Group is also a major competitor of Yuchai. Our sales to our top five customers including sales to the Dongfeng Group accounted for 40.1% of our total revenue in 2017. See Item 4. Information on the Company Business Overview Competition.

Customers' orders with Yuchai can be cancelled either by Yuchai or its customers prior to delivery in accordance with the sales contracts. 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 cost-controlling measures will successfully control Yuchai's trade receivable balance, or that they will not adversely affect the future purchasing decisions of Yuchai's customers. As of December 31, 2016, Yuchai had net trade and bills receivables of RMB 7,055.1 million, representing 53.1% of our consolidated current assets. As of December 31, 2017, Yuchai had net trade and bills receivables of RMB 7,030.2 million (US\$1,110.7 million), representing 43.9% of our consolidated current assets.

**Export Sales**

Yuchai exports a very small percentage of its products directly outside China, as the following table indicates:

	2015			2016			2017		
	Revenue	% of	Unit	Revenue	% of	Unit	Revenue	% of	Unit
	RMB 000	Revenue	Sales	RMB 000	Revenue	Sales	RMB 000	Revenue	Sales
Total Domestic Sales	13,605,782	99.5%	363,700	13,458,275	99.0%	317,726	16,098,085	99.6%	366,162
Total Direct Export Sales	66,149	0.5%	867	140,212	1.0%	2,698	67,160	0.4%	935
	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424	16,165,245	100.0%	367,097

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. All of these distributors are separate legal entities in which Yuchai has no equity interest in or control over and Yuchai relies on self-reporting by these distributors in relation to their sales. In 2017, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Cuba, Laos, Russia and India. In 2016, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Myanmar, Philippines, Ghana and Thailand. In 2015, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third-party distributors were Vietnam, Myanmar, Cuba, Saudi Arabia and the Philippines.

In February 2014, Yuchai appointed China Automotive Industry Import and Export Co., Ltd., a company based in China, on an exclusive basis for two years to export Yuchai's products into Cuba. The agreement requires China Automotive Industry Import and Export to use best efforts to export more than 1,500 units (whole engines or parts) per year. The agreement was automatically renewed under its terms on February 15, 2016. From March 1, 2017 to February 28, 2018, 934 engines had been sold pursuant to this agreement.



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### ***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 three to 12 hours, depending on the customer's location.

Yuchai's warranty obligations vary depending upon the warranty type and such provisions are determined 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. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Product warranty obligations.

### **Trademarks**

The State Holding Company owns and maintains Chinese trademark registrations of its principal trademarks. Yuchai has entered into trademark license agreements with the State Holding Company according it the right to use these trademarks at no charge. 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.

Most of Yuchai's major China domestic competitors are either state-owned enterprises or entities controlled by state-owned enterprises. The Dongfeng Group, which is a major competitor of Yuchai and which controls one of Yuchai's largest competitors, is also one of Yuchai's major customers and controls some of Yuchai's other major customers. In 2017, sales to the Dongfeng Group accounted for 29.8% of our total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dong Feng Special Vehicle Chassis National Agent (a Dong Feng Commercial Vehicle Co. Ltd. company), accounted for 15.0% in total. Our sales to our top five customers including sales to the Dongfeng Group accounted for 40.1% of our total revenue in 2017. Some of Yuchai's competitors have formed joint ventures with, or have technology assistance arrangements with, foreign 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 have further intensified competition. See Item 3. Key Information Risk Factors Risks relating to our company and our business 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 have 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, 2018, 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\$0.52 on February 28, 2018. The core businesses of the HLGE group are that of hospitality operations and property development.



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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 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 our wholly-owned subsidiary, Venture Lewis in February 2009 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 74 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 the competitiveness of its hotels, HLGE carries out renovation programs at its hotels 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. On February 26, 2018, HLGE announced that it would apply to the Singapore Stock Exchange for removal from the Watch-list and would further announce the outcome of such application in due course. On March 16, 2018, HLGE announced the proposed conversion of all of its existing issued and outstanding non-redeemable convertible cumulative preference shares into new ordinary shares of HLGE, subject to approval of the holders of such preference shares at a separate class meeting (which approval was obtained on the same day) and the ordinary shareholders of HLGE at an extraordinary general meeting. 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 Risks relating to our investment in HLGE.

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**Organizational Structure**

The following chart illustrates the organizational structure of the Company and Yuchai as of February 28, 2018 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.

**Table of Contents****Regulatory and Related Matters****Governance, Operation and Dissolution of Yuchai**

Governance, operation and dissolution of Yuchai are governed by laws and regulations of China relating to Sino-foreign joint stock companies, 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.

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 State Holding Company caused various Chinese government agencies to raise allegations of irregularities regarding the status of our ownership of land 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 new natural gas testing facility, a high horse power marine diesel engine and power generation engine plant, phases one, two and three of a new foundry and various testing and supporting facilities. In addition, Yuchai leases a number of regional sales offices in China. As of December 31, 2015, 2016 and 2017, Yuchai's total production capacity was approximately 577,500 units, 596,250 units and 596,250 units, based on a 2.5 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**

China adopted its Environmental Protection Law in 1989, and the State Council and the Ministry of Environmental Protection promulgate regulations as required from time to time. The Environmental Protection Law addresses issues relating to environmental quality, waste disposal and emissions, including air, water and noise emissions. On August 11, 2013, the new Chinese government



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released a guideline titled *Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries*. According to the document, the government planned to upgrade the environmental sector to a key industry by 2015 with an expected growth rate of 15% annually. The government announced that it would fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014-2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. On April 24, 2014, proposed amendments to the 1989 Environmental Protection Law were passed by China's Standing Committee of the National People's Congress. The new amendments, which came into effect on January 1, 2015, provide for increased fines against polluting companies, detention of negligent executives, protection for whistleblowers and penalties for officials who fail to enforce laws. Premier Li Keqiang in his 2017 annual policy report acknowledged the continued concerns over environmental pollution and stated that the Chinese government would increase the pace of progress to improve the environment, especially air quality. The measures to be adopted include tackling the sources of pollution in key industries, strengthening control over exhaust emitted by motor vehicles through the prohibition of use of higher emission vehicles, improving the quality of fuel and promoting the use of clean energy vehicles and the strict enforcement of environment laws and regulations.

China's 13th Five Year Plan covering the years 2016 to 2020, which was formerly adopted at the National People's Congress in Beijing in March 2016 seeks to reduce energy consumption by 15% and carbon emissions by 18% by 2020. In addition, green and low carbon industry systems will be set up, the use of new energy vehicles will be promoted and the industrialization level of electric cars improved. On March 11, 2016, China's Environment Minister announced a set of major reforms of China's environmental management and governance system to strengthen enforcement of related environmental protection laws. The reforms which will be phased in on a pilot basis in 17 provinces and autonomous regions will be completed nationwide in 2018. As part of the reforms, in 2016, the State Council dispatched central environmental inspection teams made up of ministerial level officials to 15 provincial areas, including Beijing, Shanghai and Guangzhou, to monitor local conditions and encourage provincial governments to fulfill their environmental protection responsibilities, resulting in disciplinary actions against a number of government officials and the imposition of fines for environmental violations. Such central environmental inspections are intended to cover all provinces, autonomous regions and municipalities by the end of 2017. In addition, in February 2017, China's Environment Minister announced a month-long special inspection on air quality across Beijing and Tianjin municipalities and Hebei, Shanxi, Shandong and Henan provinces to check on the implementation of pollution control measures by both local governments and companies. On April 10, 2017, the Ministry of Environmental Protection issued its 13th Five-Year Plan for National Environmental Protection Standards. The Plan calls for the amendment of existing environmental protection standards and the implementation of new environmental protection standards, including in relation to air quality and pollution emission control, environment detection and basic environment standards and environmental management standards.

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. As of July 2013, the National IV emission standards for diesel engines were effective throughout China, and strict enforcement of the standards commenced nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. On January 18, 2016, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection required that all light petrol vehicles, light diesel buses, and heavy 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 diesel vehicles and all light diesel vehicles nationwide are required to comply with National V emission standards from July 1, 2017 and January 1, 2018, respectively. In December 2016, the Ministry of Environmental Protection announced that all light-duty gasoline- and diesel-powered vehicles must comply with National VIa emission standards from July 1, 2020 and National VIb emission standard from July 1, 2023, subject to changes in the official implementation schedule.

Yuchai produces diesel engines compliant with National IV and National V emission standards, and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. Yuchai is also able to produce diesel engines compliant with both Tier-2 and Tier-3 emission standards for use in off-road machinery. As distribution of Tier-2 compliant diesel engines is prohibited in China with effect from October 1, 2015, Yuchai has reduced production volumes of such engines continues to produce such engines solely for export from China. See Item 3. Key Information Risk Factors Risks relating to our company and our business We may be adversely affected by environmental regulations.

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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 by the Chinese government 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. 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.

### **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, 2015, 2016 and 2017, 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**

During 2017, as the Chinese government heavily promoted the "One Belt One Road" initiative, our international business achieved growth in 2017 with over 12,000 engines shipped and installed in Chinese buses entering into the global market, and natural gas engine export sales grew 300% year-on-year. The global bus market covering countries like the Saudi Arabia, Pakistan, Myanmar, Cambodia, and Kuwait. We received the prestigious "China's Export Quality and Safety Demonstration Enterprise" award by the General Administration of Quality Supervision, Inspection and Quarantine. This award is the highest credit rating and honor for Chinese companies that sell their products internationally.

Many of our OEM customers cranked up production to meet the rising demand. As a trusted producer with the largest aftermarket service network, our heavy-duty truck engine business posted an accelerated unit growth of 64.5% in 2017. In addition to the heavy-duty segment, our light-duty truck engine division also set a new record in unit sales with a vigorous 49.5% year-over-year increase. We also continued to rapidly regain market share in the agricultural and farming equipment sector as our engine shipments to the vast agricultural market in China expanded with a strong 31.1% increase from 2016.

The China economy is expected to grow at a slower pace in 2018, according to the World Bank. The pace of economic growth in China fluctuated from 7.4% in 2014 to 6.9% in 2015 to 6.7% in 2016 and 6.9% in 2017, according to China's National Bureau of Statistics. On March 5, 2016, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China for the next five years from 2016 to 2020 to a range of between 6.5% to 7.0%, conceding that there were many challenges ahead including growing downward pressures on China's economy. On March 4, 2017, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report lowered the growth target for China in 2017 to 6.5%. On March 5, 2018, at the National People's Congress in Beijing, Premier Li Keqiang in his annual policy report announced that the growth target for China in 2018 would remain unchanged at 6.5%.

The Chinese commercial vehicle market is a highly competitive market. According to CAAM, in 2015, the commercial vehicle sales were 2.5 million units, a decline of 11.9% compared to 2014. This was mainly due to a decline in unit sales of trucks primarily due to the strict enforcement of the National IV emission standards from January 1, 2015. The Chinese government introduced generous incentives to encourage the sales of electric powered vehicles to curb air pollution in the major cities resulting in increased sales of such vehicles in 2015 compared with 2014. Excluding the sales effect of gasoline powered and electric powered vehicles, the commercial vehicle market decreased by 14.4% in 2015 compared with 2014. The decline was due to weak demand in the heavy- and medium-duty truck and heavy- and medium-duty bus segments, which registered a decline in sales of 26.0%, 21.0%, 25.5% and 19.8%, respectively.



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In 2016, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 2.7 million units, an increase of 8.3% compared with 2015, primarily due to an 11.6% increase in the truck market as stricter enforcement of anti-overloading regulations resulted in higher sales, which was partially offset by a 9.9% decline in sales in the bus segment compared with 2015. The bus segment declined in every size category, led by a 20.1% decrease in heavy-duty bus sales due to increased demand for electric-powered buses. In 2017, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) were 3.1 million units, an increase of 16.9% compared with 2016, primarily due to an increase of 19.5% in the truck market as stricter enforcement of anti-overloading regulations and increasing demand in logistics services resulted in higher sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1% compared with 2016.

In recent years, the Chinese government has been focused on developing the new-energy vehicle industry to curb air pollution. Various incentives and infrastructure investments have been introduced to encourage purchases of electric-powered vehicles. As a result, the sales of electric-powered vehicles increased by approximately 26.8% in 2017 to 176,331 units from 139,060 units in 2016. Excluding gasoline-powered and electric-powered vehicles, sales of other fuel-powered trucks increased by approximately 19.5% due to the enforcement of anti-overloading regulations, while sales of other fuel-powered buses decreased by approximately 0.7%, and sales of medium-duty buses decreased by approximately 21.6%. At the National People's Congress in March 2017, the Ministry of Industry and Information Technology was pushing for more electric-powered vehicles on one hand, other parts of the government decided to lower the financial incentive program for new energy vehicles. China has, beginning in December 2016, gradually reduced subsidies for new energy vehicles and is expected to phase out all financial assistance by 2020, replacing such assistance with fiscal rewards for qualified companies, while continuing to invest in the charging station network to support the growing number of new-energy vehicles on the road. On February 12, 2018, the Ministry of Finance, Ministry of Industry and Information Technology, Ministry of Science and Technology, National Development and Reform Commission jointly issued a notice in relation to adjustment and improvement of the policy application of financial subsidies for the promotion of new energy vehicles, giving a transition period of four months from February 12 to June 11, 2018, during when new energy vehicles will continue to enjoy subsidies while the subsidy rate will be reduced. The subsidy after June 11, 2018 will be even lower in accordance with the original subsidy reduction timeline.

The change in emission standards in China presents a growth opportunity for us. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and have been strictly enforced nationwide since January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2014, we recorded significant growth in the sale of our National IV engines. In 2015, sales of National IV engines continued to grow. In 2016, sales of National IV engines declined as compared with 2015, while sales of National V engines increased further as compared with 2015. In 2017, sales of National IV engines further declined as compared with 2016, while sales of National V engines had increased significantly as compared with 2016.

In 2015, the commercial vehicle market further weakened, and our engine sales declined by 24.6% to 364,567 units compared with 483,825 units in 2014. Our net revenue decreased by 16.4% to RMB 13.7 billion despite the drop in our unit sales. This was due to higher sales of engines that are compliant with higher emission standard such as National IV engines. In 2016, our engine sales declined by 12.1% to 320,424 units, mainly due to lower unit sales to the agricultural market. Our on-road engine sales reflected the sales trend in the commercial vehicle market. Our 2016 net revenue was RMB 13.7 billion compared with RMB 13.7 billion in 2015 despite the drop in our unit sales. This was due to higher sales of engines that are compliant with higher emission standard such as National V engines. The higher emission standard engines have a higher average sales price. In 2017, our engine sales increased by 14.6% to 367,097 units compared with 2016, which was primarily due to increases in sales of on-road heavy-duty and light-duty engines, and industrial and agricultural engines. Our net revenue increased by 18.7% to RMB 16.2 billion.

Our light-duty engine sales, as a percentage of total unit sales, decreased from 66.2% in 2015 to 63.1% in 2016 and to 58.1% in 2017. This change in sales mix and the market competition caused our gross margin to fluctuate from 20.3% in 2015 to 21.7% in 2016 and 21.7% in 2017, respectively.

As a result, our profit attributable to equity holders was RMB 341.1 million, RMB 515.7 million and RMB 953.9 million (US\$150.7 million) for the year 2015, 2016 and 2017, respectively.

Uncertainty and adverse changes in the global and Chinese economies could 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. Additionally, 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 of 25%.



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**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 our wholly-owned subsidiary, Venture Delta, we acquired a 15.0% equity interest in TCL. As of December 2009, our equity interest in TCL was 34.4%.

Since fiscal year 2010, we have gradually reduced our equity interest in TCL. As of December 31, 2017 and February 28, 2018, our equity interest in TCL remained at 7.7%, and the market value of our investment in TCL amounted to approximately S\$5.1 million (US\$3.8 million) and S\$5.3 million (US\$4.0 million), respectively. We are currently considering our options in relation to our investment in the TCL group including disposing of our entire shareholding in TCL.

The TCL group invests directly or with co-investors in real estate and other investment opportunities which include property-backed financial instruments.

**HL Global Enterprises Limited**

The second step in the implementation of our business expansion and diversification plan occurred in February 2006 when through our wholly-owned subsidiaries, Grace Star and Venture Lewis, we acquired a 29.1% equity interest in HLGE and certain convertible preference and debt securities for an aggregate consideration of approximately S\$132.0 million. As of December 31, 2017, our equity interest in HLGE was 48.9%. As of February 28, 2018, our equity interest in HLGE remained unchanged.

**Critical Accounting Policies**

The accounting policies adopted by us are more fully described in Note 2 of our consolidated financial statements appearing elsewhere herein. 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.

Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant assumptions and estimates by our management. We refer to these accounting policies as our critical accounting policies. 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 assumptions and estimates. However, this task is inexact because our management is making 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.

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 critical accounting policies involve a higher degree of estimation and therefore warrant additional attention:

impairment of trade receivables;

realization of the carrying value of inventories;

product warranty obligations;

recoverability of the carrying values of equity method investments and other investments;

realization of deferred tax;

impairment of non-financial assets; and

derecognition of bills receivable;

**Impairment of trade receivables**

Impairment of trade receivables is management's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management determines the impairment based on assessment of the recoverability of accounts receivable. Impairment are applied to accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Management reviews its impairment of trade receivables on a

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monthly basis. As of December 31, 2017, the Dongfeng Group accounted for about 9.6% of the gross accounts receivable as compared to approximately 11.6% as of December 31, 2016. Likewise, the top 20 non-Dongfeng Group customers accounted for about 12.8% of the gross accounts receivable at the end of 2017. We analyzed our customer's trends, repayment patterns and aging analysis in 2017. The balances that were past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Movement in impairment of trade receivables for each of the years in the two-year period ended December 31, 2017 are summarized as follows:

	2016 RMB	December 31, 2017 RMB (in thousands)	2017 US\$
Balance at beginning of year	51,288	54,634	8,632
Charge/(credit) to consolidated statements of profit or loss	3,696	(10,854)	(1,715)
Written off	(346)	(5)	(1)
Translation differences	(4)		
<b>Balance at end of year</b>	<b>54,634</b>	<b>43,775</b>	<b>6,916</b>

Gross trade receivables decreased by RMB 39.9 million (US\$6.3 million) as of December 31, 2017 as compared to 2016. Impairment of trade receivables decreased by RMB 10.9 million (US\$1.7 million). Bills receivable increased by RMB 3.4 million (US\$0.5 million) as of December 31, 2017 as compared to 2016.

We believe that the present level of our impairment of trade receivables adequately reflects probable losses related to impaired accounts receivable. However, changes in the assumptions used to assess the frequency and severity of doubtful accounts would have an impact on our impairment. If economic or specific industry trends change, we would adjust our impairment of trade receivables by recording additional expense or benefit.

**Realization of the carrying value of inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of allowance for inventory obsolescence as at December 31, 2016 and 2017 were RMB 126.8 million and RMB 106.9 million (US\$16.9 million) respectively. If market conditions or future product enhancements and developments change, the net realizable values of the inventories may change and result in further inventory write-downs.

**Product warranty obligations**

The Group recognizes a liability at the time the product is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which the Group provides free repair and replacement. For on-road engine applications, the warranties extend for duration of generally 12 to 36 months or mileage of generally 50,000 to 300,000 kilometers, whichever is the lower. For off-road engine applications, the warranties extend for duration of generally 12 to 24 months. Provisions for warranty are primarily determined based on historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each financial year. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.



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Changes in the accrued product warranty liability for each of the years in the two-year period ended December 31, 2017 are summarized as follows:

	2016 RMB	December 31, 2017 RMB (in thousands)	2017 US\$
Balance at beginning of year	233,577	238,850	37,737
Provision made	350,803	412,514	65,174
Less: Provision utilized	(345,530)	(361,058)	(57,045)
Balance at end of year	238,850	290,306	45,866

We recognize a liability for warranty at the time the product is sold and our estimate of our warranty obligations is evaluated on an annual basis. If the nature, frequency and average cost of warranty claims change, we would adjust our allowances for product warranty by recording additional expense or benefit so as to seek to ensure that accruals will be adequate to meet expected future obligations. A decrease or increase of 5.0% in historical utilization experience over the last two fiscal years average would impact the provision for product warranty by approximately RMB 17.7 million (US\$2.8 million).

**Recoverability of the carrying values of equity method investments and other investments**

We assess impairment of our investments in affiliates when adverse events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the recoverable value of our investment is below its carrying amount and that loss in value is considered other than temporary, an impairment charge is recognized. We typically perform evaluation of the value of our investment using a discounted cash flows projection. The projection will be performed using historical trends as a reference and certain assumptions to project the future streams of cash flows.

In 2015, we reversed an impairment of RMB 21.9 million for Copthorne Hotel Qingdao Co., Ltd. (an investment of HLGE) made in 2013. The reversal was made because the latest valuation supports the reversal. The management also had obtained the consent of its joint venture partner to sell the joint venture. On February 22, 2016, HLGE announced its intention to dispose of its entire 60% shareholding interest in Copthorne Hotel Qingdao together with the other 40% equity holder by way of public tender on the Shanghai United Assets and Equity Exchange. In 2016, we performed impairment evaluation of our investments and determined that no impairment was required. In October 2017, we completed the disposal of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd and recorded a gain of RMB 108.0 million (US\$ 17.0 million). See Note 22 to the consolidated financial statements in Item 18. In 2017, we performed impairment evaluation of our current investments and determined that no impairment was required.

**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.

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The China tax bureau periodically conducts tax examinations. In 2015, the local tax bureau conducted its tax examinations of Yuchai's PRC income tax returns for 2013 and 2014, being the years sampled for the current tax examinations. In May 2016, the final report was issued by local tax bureau for these examinations. No material issues were raised.

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 eight to fifteen years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the 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 6, Note 14 and Note 15 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of intangible assets as of December 31, 2015, 2016 and 2017 are RMB 81.8 million, RMB 81.8 million and RMB 10.1 million (US\$1.6 million), respectively. We periodically conduct an impairment evaluation on the conditions of our intangible assets. In 2014, we performed an impairment evaluation of our intangible assets and an impairment charge of RMB 60.0 million was recorded to our consolidated statement of profit or loss under selling, general and administrative expenses. The impairment was related to 4Y20 engine platform technology development costs held by Jining Yuchai Engine Company Limited (Jining Technology Development Costs). In 2015, we performed an impairment evaluation of our intangible assets and a further impairment charge of RMB 26.7 million was recorded relating to the Jining Technology Development Costs. In 2016, we performed an impairment evaluation of our intangible assets and no impairment charge was recognized. In 2017, we performed an impairment evaluation of our intangible assets and a further impairment charge of RMB 40.0 million was recorded relating to the Jining Technology Development Costs. As a result, we made a total impairment charge of RMB 126.7 million (US\$20.0 million) in relation to the Jining Technology Development Costs. See Note 15 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of goodwill as of December 31, 2015, 2016 and 2017 are RMB 212.6 million, RMB 212.6 million and RMB 212.6 million (US\$33.6 million), respectively. We periodically conduct an impairment evaluation on the goodwill. No impairment was made for 2015, 2016 and 2017.

Our market capitalization as of December 31, 2015, 2016 and 2017 based on our closing share price was lower than our consolidated net assets. We performed our annual goodwill impairment tests as of December 31, 2015, 2016 and 2017, respectively, 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 bills receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bills receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the transfer of risks and rewards of the bills receivable when discounted, our management believes that the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 20 to the accompanying consolidated financial statements in Item 18.

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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, 2015, 2016 and 2017:

	Percentage of Revenue		
	Year Ended December 31,		
	2015	2016	2017
Revenue	100.0%	100.0%	100.0%
Cost of sales	-79.7%	-78.3%	-78.3%
Gross profit	20.3%	21.7%	21.7%
Other income, net	0.2%	0.7%	3.8%
Research and development costs	-3.7%	-4.3%	-3.7%
Selling, distribution and administrative costs	-10.9%	-11.0%	-11.2%
Operating profit	5.9%	7.1%	10.6%
Finance costs	-0.9%	-0.6%	-0.6%
Share of results of associates and joint ventures, net of tax	0.0%	0.0%	0.1%
Profit before tax	5.0%	6.5%	10.1%
Income tax expense	-1.3%	-1.2%	-1.4%
Profit for the year	3.7%	5.3%	8.7%
Attributable to:			
Equity holders of the Parent	2.5%	3.8%	5.9%
Non-controlling interests	1.2%	1.5%	2.8%

**2017 compared to 2016**

Revenue for 2017 was RMB 16,222.4 million (US\$2,563.0 million) compared with RMB 13,664.8 million in 2016, an increase of 18.7%. The total number of diesel engines sold by Yuchai in 2017 was 367,097 units compared with 320,424 units in 2016, representing an increase of 46,673 units, or 14.6%. Revenue increased primarily due to an increase in the number of diesel engine units sold. According to CAAM, sales of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) increased by 16.9% in 2017. The truck market grew by 19.5% led by a 52.4% increase in heavy-duty truck sales. The bus market remained weak experiencing a 0.7% decline in overall sales with heavy-duty bus sales up 0.1%.

Cost of sales was RMB 12,707.4 million (US\$2,007.7 million) in 2017, an increase of 18.8% from RMB 10,700.7 million in 2016. Cost of sales represented 78.3% of revenue for both 2017 and 2016. The increase in cost of sales corresponds to the increase in the total number of engines sold in 2017 compared to 2016. Cost of materials consumed was RMB 11,041.9 million (US\$1,744.5 million) in 2017, an increase of 18.6% from RMB 9,313.4 million in 2016. This was 68.1% of revenue in 2017 compared to 68.2% in 2016. Factory overheads (excluding depreciation) were RMB 861.1 million (US\$136.0 million) in 2017, representing an increase of 26.8% from RMB 678.9 million in 2016. This was 5.3% and 5.0% of revenue for 2017 and 2016, respectively. Depreciation was RMB 307.1 million (US\$48.5 million) in 2017, a decrease of 4.7% from RMB 322.3 million in 2016. This was 1.9% and 2.4% of revenue for 2017 and 2016, respectively.

Gross profit was RMB 3,515.0 million (US\$555.3 million) compared with RMB 2,964.2 million in 2016, an increase of 18.6%. Gross profit margin was 21.7% in 2017 and 2016.

Other income, net was RMB 624.6 million (US\$98.7 million) compared with RMB 95.4 million in 2016. In 2017, we recorded a one-time gain of RMB 115.2 million (US\$ 17.6 million) on the completion of engineering design services for the YC6K heavy-duty engine platform for our joint venture, Y&C, and a one-time gain of RMB 324.1 million (US\$ 49.6 million) from the sale of HLGE's hotel assets located in China. Excluding these one-time items, other operating income was RMB 185.3 million (US\$ 29.3 million) compared with RMB 95.4 million in 2016, and the increase was mainly due to higher foreign exchange gains and higher bank interest income.

Research and development ( R&D ) expenses were RMB 608.2 million (US\$96.1 million) in 2017 compared to RMB 588.0 million in 2016, an increase of RMB 20.2 million or 3.4%. R&D expenses were 3.7% and 4.3% of revenue in 2017 and 2016, respectively. R&D expenses increased mainly due to the ongoing research and development of new and existing engine products as well as continued initiatives to improve engine quality. The Company remains committed to its R&D programs and continues to introduce new engine models for both the on-road and off-road markets compliant with increasingly stringent emission standards. In January 2018, 14 new engine models were introduced that are compliant with the more stringent National VI (equivalent to Euro VI) emission standard.



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Selling, general and administrative ( SG&A ) expenses were RMB 1,815.9 million (US\$286.9 million) compared to RMB 1,504.4 million in 2016, an increase of RMB 311.5 million or 20.7%. SG&A expenses represented 11.2% of net revenue, compared with 11.0% in 2016. In 2017, SG&A expenses included an impairment charge of RMB 40.0 million (US\$ 6.3 million) related to the intellectual property for the Jining Technology Development Costs related to the 4Y20 engine platform, as well as a staff severance cost of RMB 107.7 million (US\$ 17.0 million). In 2016, staff severance cost of RMB 12.9 million was recorded. Excluding these extraordinary events, SG&A expenses increased by 11.8% to RMB 1.7 billion (US\$ 255.3 million) from RMB 1.5 billion in 2016. These expenses represented 10.3% of net revenue, compared with 10.9% in 2016.

As a result, operating profit increased by 77.4% to RMB 1,715.6 million (US\$ 271.1 million) from RMB 967.2 million in 2016. The increase was mainly due to the net gain of RMB 291.6 million (US\$ 46.1 million) from one-time and extraordinary events. The operating margin was 10.6% compared with 7.1% in 2016. Excluding the one-time and extraordinary events, operating profit increased by 45.3% to RMB 1,424 million (US\$ 225.0 million) from RMB 980.0 million in 2016.

Finance costs increased by 26.0% to RMB 100.4 million (US\$ 15.9 million) from RMB 79.7 million in 2016. Higher finance costs mainly resulted from increased bank borrowings and higher trade bills discounted in 2017.

The share of associates and joint ventures were a profit of RMB 10.1 million (US\$ 1.6 million) as compared with a loss of RMB 3.6 million in 2016 mainly due to strong diesel engines sales from our joint venture, Y&C.

Profit before tax was RMB 1,625.2 million (US\$256.8 million) in 2017 compared with RMB 883.9 million in 2016.

Income tax expense in 2017 was RMB 220.2 million (US\$34.8 million) compared with RMB 160.3 million in 2016. Our effective tax rates were 13.5% and 18.1% for 2017 and 2016, respectively. In 2017, the effective tax rate was low mainly due to gain on disposal of subsidiaries and joint venture, which is capital gain in nature and not subject to income tax.

As a result of the foregoing factors, profit for the year was RMB 1,405.1 million (US\$222.0 million) in 2017 compared with RMB 723.6 million in 2016, representing an increase of 94.2%.

Net Profit attributable to our shareholders increased by 85.0% to RMB 953.9 million (US\$ 150.7 million) compared with RMB 515.7 million in 2016. Net profit attributable to our shareholders in 2017 included a net gain of RMB 130.3 million (US\$ 20.6 million) from the one-time and extraordinary events. Adjusted total net profit attributable to our shareholders in 2017, excluding the one-time and extraordinary events, was RMB 823.6 million (US\$ 130.1 million), compared with RMB 524.1 million in 2016, representing an increase of 57.2%.

**2016 compared to 2015**

Revenue for 2016 was RMB 13,664.8 million compared with RMB 13,733.4 million in 2015, a decrease of 0.5%. The total number of diesel engines sold by Yuchai during 2016 was 320,424 units compared with 364,567 units in 2015, representing a decrease of 44,143 units, or 12.1%. Revenue decreased primarily due to fewer unit sales to agricultural market. The decrease in revenue was smaller compared to the decline in sales volume due to increased sales of higher emission standard engines and higher horsepower engines. The higher emission standard engines and higher horsepower engines have a higher average selling price compared with lower emission standard engines. According to CAAM, commercial vehicle sales (excluding gasoline powered and electric powered vehicles) increased by 8.3% in 2016 compared with 2015. The increase was led by a gain of 11.6% in the truck market and, in particular, a 33.1% increase in heavy-duty truck sales. The bus market remained weak as overall sales decreased 9.9% compared with 2015. The bus segment declined in every size category, led by a 20.1% decrease in heavy-duty bus sales due to increased demand for electric-powered buses. Our on-road engine sales reflected the sales trend in the commercial vehicle market.

Cost of sales was RMB 10,700.7 million in 2016, a decrease of 2.2% from RMB 10,942.9 million in 2015, and a reduction of 1.4 percentage points as a percentage of revenue to 78.3% from 79.7% in 2015. The decrease in cost of sales corresponds to the reduction in the total number of engines sold in 2016 compared to 2015. Cost of materials consumed was RMB 9,313.4 million in 2016, a decrease of 2.3% from RMB 9,531.4 million in 2015. This was 68.2% of revenue in 2016 compared to 69.4% in 2015, respectively, primarily due to a decrease in raw materials costs as a percentage of revenue in 2016 compared to 2015. Factory overheads (excluding depreciation) were RMB 678.9 million in 2016, representing an increase of 1.6% from RMB 668.2 million in 2015. This was 5.0% and 4.9% of revenue for 2016 and 2015, respectively. Depreciation was RMB 322.3 million in 2016, an increase of 0.7% from RMB 320.0 million in 2015. This was 2.4% and 2.3% of revenue for 2016 and 2015, respectively.



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Gross profit was RMB 2,964.2 million compared with RMB 2,790.6 million in 2015, an increase of 6.2%. Gross profit margin was 21.7% in 2016 compared with 20.3% in 2015. The higher gross margin was attributable to a shift in sales mix to greater sales of higher emission standard engines and lower raw material costs as a percentage of revenue.

Other income, net was RMB 95.4 million compared with RMB 19.3 million in 2015. This increase was mainly due to lower foreign exchange revaluation losses and higher interest income from bank deposits in 2016 and a one-time loss in 2015 from the disposal of Yuchai's entire shareholding interest in Xiamen Yuchai Diesel Engines Co., Ltd. The main sources of other income in 2016 were (i) interest income of RMB 57.0 million, and (ii) government grants of RMB 41.5 million.

Research and development ( R&D ) expenses were RMB 588.0 million in 2016 compared to RMB 507.0 million in 2015, an increase of RMB 81.0 million or 16.0%. R&D expenses were 4.3% and 3.7% of revenue in 2016 and 2015, respectively. R&D expenses increased mainly due to the ongoing research and development of new and existing engine products, including new engines for the on- and off-road markets that meet higher emission standards, as well as continued initiatives to improve engine quality. We remained committed to our R&D programs and continue to introduce new engine models for both the on-and off-road markets compliant with increasingly stringent emission standards.

Selling, general and administrative ( SG&A ) expenses were RMB 1,504.4 million compared to RMB 1,497.8 million in 2015, an increase of RMB 6.6 million or 0.4%. SG&A expenses were 11.0% and 10.9% of revenue in 2016 and 2015, respectively. Warranty expenses were RMB 350.8 million in 2016 compared to RMB 307.6 million in 2015, representing 2.6% and 2.2% of revenue for 2016 and 2015, respectively. Advertising expenses were RMB 27.5 million in 2016 compared to RMB 32.8 million in 2015, representing 0.2% of revenue for both 2016 and 2015.

As a result, operating profit increased by 20.1% to RMB 967.2 million from RMB 805.2 million in 2015, mainly due to higher gross profit and other income, partially offset by higher R&D expenses. The operating margin was 7.1% and 5.9% for 2016 and 2015, respectively.

Finance costs declined to RMB 79.7 million from RMB 116.4 million in 2015, a decrease of RMB 36.7 million or 31.5%. Lower finance costs mainly resulted from lower bank borrowings. External borrowings decreased to RMB 910.4 million from RMB 2.5 billion in the same period in 2015.

The share of joint ventures was a loss of RMB 4.1 million as compared with a loss of RMB 2.9 million in 2015.

Profit before tax was RMB 883.9 million in 2016 compared with RMB 686.1 million in 2015.

Income tax expense in 2016 was RMB 160.3 million compared with RMB 176.8 million in 2015. Our effective tax rates were 18.1% and 25.8% for 2016 and 2015, respectively. In 2015, the higher effective tax rate was mainly due to the writing down of a deferred tax asset relating to a loss making subsidiary.

As a result of the foregoing factors, profit for the year was RMB 723.6 million in 2016 compared with RMB 509.3 million in 2015, representing an increase of 42.1%.

Net Profit attributable to our shareholders was RMB 515.7 million in 2016 compared with RMB 341.1 million in 2015, representing an increase of 51.2%. Profit attributable to non-controlling interests was RMB 207.9 million compared with RMB 168.2 million in 2015, representing an increase of 23.6%.

**Inflation**

The general annual inflation rate in China decreased to 1.6% in 2017 from 2.0% in 2016, according to the National Bureau of Statistics. Our results of 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 Risks relating to our company and our business If China's inflation increases or the prices of energy or raw materials increase, we may not be able to pass the resulting increased costs to our customers and this may adversely affect our profitability or cause us to suffer operating losses.



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### **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, 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 Risk Factors Risks relating to China 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.

Our primary cash requirements are for working capital, capital expenditures to complete the expansion of production capacity, 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, 2017, we had approximately RMB 6,029.2 million (US\$952.6 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, 2017, we had outstanding borrowings of RMB 1,626.3 million (US\$257.0 million), including Yuchai's borrowings of RMB 1,600.0 million (US\$252.8 million).

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 finance increased trade accounts receivable. We expect to fund our working capital and trade accounts



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receivable 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 ), 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 follow:

On May 28, 2013, upon the receipt of approval from its board of directors, shareholders and 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 ultra short-term bonds ( USTB ) 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 was valid for two years commencing from February 28, 2015.

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

On March 30, 2007, we entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo Mitsui Banking Corporation, Singapore Branch for an aggregate of US\$40.0 million to refinance the S\$60.0 million facility from another bank that matured on July 26, 2007. The facility was for a period of three years from the date of the facility agreement and was utilized by us to finance our long-term general working capital requirements. The terms of the facility required, among other things, that Hong Leong Asia retained ownership of the special share and that we remained a principal subsidiary (as defined in the facility agreement) of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year not being less than US\$120 million and the ratio of our total net debt (as defined in the agreement) to 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. As of June 12, 2007, we had fully drawn down on the US\$40.0 million facility. On March 25, 2010, we entered into a supplemental agreement with the bank to refinance the existing US\$40.0 million credit facility that matured on March 30, 2010. The new unsecured, multi-currency revolving credit facility had a committed aggregate value of US\$30.0 million and was for a one-year duration. The financial covenant with respect to our consolidated tangible net worth as of June 30 and December 31 of each year was revised from not less than US\$120 million to not less than US\$200 million, but the other terms remained similar. On March 18, 2011, we entered into an agreement on similar terms with the bank to refinance the existing US\$30.0 million credit facility that matured on March 25, 2011. This unsecured multi-currency revolving credit facility had a committed aggregate value of US\$30.0 million and was for a three-year duration. On March 12, 2014, we entered into a supplemental agreement with the bank to renew the existing US\$30.0 million facility that matured on March 18, 2014. The unsecured multi-currency revolving credit facility had a committed aggregate value of US\$30.0 million and matured on March 18, 2017. On March 31, 2017, we entered into a supplemental agreement with the bank to renew the US\$30.0 million facility. The new unsecured multi-currency revolving credit facility has an uncommitted aggregate value of US\$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 12, 2014.

On March 20, 2008, we entered into a facility agreement with the MUFG Bank Ltd, Singapore Branch (formally known as Bank of Tokyo Mitsubishi UFJ, Ltd., Singapore Branch), to refinance the existing US\$25.0 million credit facility which matured on March 20, 2009. The unsecured, multi-currency revolving credit facility had a committed aggregate value of S\$21.5 million with one-year duration. The facility was used to finance our long-term general working capital requirements. Among other things, the terms of the facility required that Hong

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Leong Asia retains ownership of the special share and that we remained a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as of June 30 and December 31 of each year, not being less than US\$120 million, and the ratio of our total net debt (as defined in the agreement) to 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. On March 19, 2009, we refinanced the existing revolving credit facility that matured on March 20, 2009 by entering into a new credit facility agreement with the bank for a committed aggregate value of S\$16.5 million with one-year duration. On March 17, 2010, we entered into a one-year facility

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agreement with the bank on similar terms to refinance the existing S\$16.5 million credit facility that matured on March 19, 2010. On March 11, 2011 we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2011. The unsecured multi-currency revolving credit facility had a committed aggregate value of S\$30.0 million and was for a three-year duration. On March 13, 2014, we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2014. The unsecured multi-currency revolving credit facility had a committed aggregate value of S\$30.0 million and matured on March 18, 2017. On March 30, 2017, we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility. The unsecured multi-currency revolving credit facility has a committed aggregate value of S\$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 13, 2014.

On November 10, 2011, we entered into a three-year revolving credit facility agreement with DBS Bank Ltd. of Singapore with a committed aggregate value of S\$30.0 million. Among other things, the terms of the facility required that Hong Leong Asia retains ownership of the special share and that we remain a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) not being less than US\$350 million, and the ratio of our total net debt (as defined in the agreement) to tangible net worth not exceeding 1.0 times. This arrangement was used to finance our general working capital requirements and was repaid in full upon expiration of the facility on November 10, 2014. On May 22, 2015, we entered into a three-year revolving uncommitted credit facility agreement with DBS Bank Ltd. of Singapore with an aggregate value of S\$30.0 million. The terms and conditions of this facility are similar to the facility agreement dated November 10, 2011. We are in process of renewing this facility.

As of December 31, 2017, CYI s (including Yuchai) unutilized facilities amounted to RMB 474.4 million (US\$74.9 million).

We believe that should there be a need for further loans from banks, we can borrow additional amounts through our established banking relationships with a number of domestic Chinese or Singapore banks. We can also obtain financing by issuing bonds, issuing bills payable, discounting bills receivable, factoring accounts receivables or through other financing activities. However, such activities are subject to market conditions and there is no assurance that such additional activities would be successful.

The following table summarizes the key elements of our cash flows for the last three years:

	<b>For Year ended December 31,</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
	<b>(in thousands)</b>			
Net cash from operating activities	1,686,718	2,276,087	1,370,167	216,477
Net cash (used in)/from investing activities	(25,496)	(572,031)	126,570	19,997
Net cash (used in)/from financing activities	(485,535)	(1,553,986)	280,862	44,374
Effect of foreign currency exchange on cash and cash equivalents	7,332	29,480	(41,189)	(6,507)
<b>Net increase in cash and cash equivalents</b>	<b>1,183,019</b>	<b>179,550</b>	<b>1,736,410</b>	<b>274,341</b>

In 2017, net cash from operating activities was an inflow of RMB 1,370.2 million (US\$216.5 million). The inflow was mainly derived from profit before tax of RMB 1,625.2 million (US\$ 256.8 million), which was partially offset by the payment for income tax of RMB 203.0 million (US\$ 32.1 million). The impact of higher inventories on working capital was offset by the increase in trade and other payables. In 2016, net cash from operating activities was an inflow of RMB 2,276.1 million. The inflow was mainly derived from profit before tax of RMB 883.9 million and changes in working capital such as lower trade and other receivables, lower inventories as well as higher trade payables. In 2015, net cash from operating activities was an inflow of RMB 1,686.7 million. The inflow was mainly derived from profit before tax of RMB 686.1 million and changes in working capital such as lower trade and other receivables as well as inventories, partially offset by lower trade and other payables.

In 2017, net cash from investing activities was an inflow of RMB 126.6 million (US\$20.0 million). The inflow was mainly due to proceeds from disposal of HLGE hotel assets located in China of RMB 524.3 million (US\$82.9 million), interest received of RMB 108.5 million (US\$17.1 million), partially offset by purchase of property, plant and equipment of RMB 289.5 million (US\$45.7 million) and net placement of fixed deposits with bank of RMB 254.3 million (US\$40.2 million). In 2016, net cash used in investing activities was an outflow of RMB 572.0 million. The outflow was mainly due to purchase of property, plant and equipment of RMB 351.5 million, net placement of fixed deposits with banks of RMB 282.8 million, offset by interest received of RMB 56.7 million. In 2015, net cash used in investing activities was an outflow

of RMB 25.5 million. The outflow was mainly due to purchase of property, plant and equipment of RMB 397.8 million and offset by net withdrawal of fixed deposits with banks of RMB 126.7 million and inflow from disposal of subsidiaries of RMB 170.7 million.

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In 2017, net cash from financing activities was an inflow of RMB 280.9 million (US\$44.4 million). The inflow was mainly due to net proceed from bank borrowings of RMB 714.5 million (US\$112.9 million), partially offset by payment of dividend of RMB 333.0 million (US\$52.6 million) and payment of finance costs of RMB 107.2 million (US\$ 16.9 million). In 2016, net cash used in financing activities was an outflow of RMB 1,554.0 million, which was mainly due to repayment of Medium Term Notes and Ultra Short-Term Bond of RMB 1.0 billion and RMB 400.0 million, respectively. In 2015, net cash used in financing activities was an outflow of RMB 485.5 million, which was mainly due to payment of dividend of RMB 236.9 million and placement of fixed deposits of RMB 300.6 million pledged for bank facility.

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, 2017 was RMB 6,603.8 million (US\$1,043.3 million) compared to RMB 5,272.1 million as of December 31, 2016.

As of December 31, 2017, we had long-term interest-bearing loans and borrowings totaling RMB 26.3 million (US\$4.2 million) and current interest-bearing loans and borrowings totaling RMB 1,600.0 million (US\$252.8 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, 2017:

Contractual Obligations	Total RMB	Payments Due by Period		
		Less than 1 Year RMB (in millions)	2-5 Years RMB	More than 5 Years RMB
Short-term debt <sup>(1)</sup>	1,624.5	1,624.5		
Long-term debt <sup>(1)</sup>	27.9		27.9	
Purchase obligations regarding capital expenditures <sup>(2)</sup>	409.5	409.5		
Operating lease commitments	35.3	19.6	15.7	
<b>Total</b>	<b>2,088.6</b>	<b>2,045.0</b>	<b>43.6</b>	

<sup>(1)</sup> Includes contractual interest payments

<sup>(2)</sup> The timing of the payment will depend on the actual progress of work.

**Capital Expenditures**

Our capital expenditures were RMB 429.9 million, RMB 285.0 million and RMB 261.4 million (US\$41.3 million) in 2015, 2016 and 2017, respectively. These expenditures are primarily used for upgrading existing facilities and building new facilities mainly in Yulin City in Guangxi Zhuang Autonomous Region. 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 upgrading of existing facilities are used to 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, 2017, we had committed capital expenditures for upgrading existing facilities and building new facilities in the amount of RMB 409.5 million (US\$64.7 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 government regulation 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, 2016 and 2017, in order to facilitate customer and supplier arrangements, Yuchai had issued irrevocable letter of credits of RMB 29.7 million and RMB 1.9 million (US\$0.3 million), respectively. These were issued for purchase of production materials, machinery and equipment.

As of December 31, 2016, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled RMB 817.4 million. As of December 31, 2017, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled RMB 1,505.8 million (US\$237.9 million). These bills receivables were received from customers in settlement for their purchases. Yuchai discounted these bills receivables to fund the operation, as and when required.

As of December 31, 2016 and 2017, outstanding bills receivable endorsed to suppliers for which Yuchai had retained a recourse obligation totaled RMB 851.1 million and RMB 1,316.1 million (US\$207.9 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 Standards**

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

#### **IFRS 9 *Financial Instruments***

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

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

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

The Group does not apply hedge accounting.

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

#### **(a) Classification and measurement**

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

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

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

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

### **(b) Impairment**

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

### **(c) Other adjustments**

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

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

## ***IFRS 15 Revenue from Contracts with Customers***

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

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

The Group has performed a preliminary impact assessment of IFRS 15 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts IFRS 15 in 2018.

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

### **(a) Warranty obligations**

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

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

**(b) Variable consideration**

*Volume rebates and trade discounts*

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

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

*Rights of return*

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

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

**(c) Performance obligations**

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

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

**(d) Presentation and disclosure requirements**

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

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

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the

associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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

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

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

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

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

**IFRS 16 Leases**

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

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

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

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

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

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

**IFRS 17 Insurance Contracts**

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

A specific adaptation for contracts with direct participation features (the variable fee approach)

A simplified approach (the premium allocation approach) mainly for short-duration contracts



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

### ***IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration***

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

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

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

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

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

### ***IFRIC Interpretation 23 Uncertainty over Income Tax Treatments***

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

The Interpretation specifically addresses the following:

Whether an entity considers uncertain tax treatments separately

The assumptions an entity makes about the examination of tax treatments by taxation authorities

How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances

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

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

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

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

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

**(i) Temporary exemption from IFRS 9**

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

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### **(ii) The overlay approach**

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

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

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

### **Transfers of Investment Property (Amendments to IAS 40)**

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

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

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

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

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

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

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

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

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

The amendments clarify that:

- (i) An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- (ii) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

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

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### ***Prepayment Features with Negative Compensation Amendments to IFRS 9***

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendment does not have any impact on the Group.

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

#### ***IFRS 3 Business Combinations Previously held Interests in a joint operation***

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

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



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The Group does not plan to early adopt the amendments.

### **IFRS 11 Joint Arrangements *Previously held Interests in a joint operation***

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

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

The Group does not plan to early adopt the amendments.

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

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

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

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

### **IAS 23 Borrowing Costs *Borrowing costs eligible for capitalization***

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

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

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

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

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

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Our directors and executive officers are identified below.

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

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

<sup>(1)</sup> Also a Director of Yuchai.

<sup>(2)</sup> Member of the Compensation Committee.

<sup>(3)</sup> Member of the Audit Committee.

<sup>(4)</sup> Also a Director of HLGE.

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

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

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

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

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



Railway College and a Master's degree in Statistics from the Dongbei University of Finance and Economics.

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

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

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan was also a Director of the Risk Management Association, Hong Kong Chapter from May 2000 to January 2016. Mr. Tan graduated in Accounting from Western Australian Institute of Technology (now known as Curtin University). He is a Fellow member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Raymond Chi-Keung was previously a Director of the Company from June 2004 to September 2006 and was re-appointed as an independent Director on April 30, 2013. He is now practicing as an independent arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to joining the secretariat of the Law Society in 2006, he had practiced law for 23 years since 1983. He holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the panel of arbitrators of the Hong Kong International Arbitration Centre. He is a non-practising member of the Law Society of Hong Kong, The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho is currently a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

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

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

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. Tan Aik-Leang (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. Tan Aik-Leang as our Audit Committee Financial Expert.



**Table of Contents****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.

**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, 2018 are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
YAN Ping <sup>(1)</sup>	Chairman of the Board of Directors	2005
HOH Weng Ming <sup>(1)</sup>	Deputy Chairman of the Board of Directors	2008
WU Qiwei <sup>(2)</sup>	Director and President	2011
GAN Khai Choon <sup>(1)</sup>	Director	2007
KWEK Leng Peck <sup>(1)</sup>	Director	2005
NEO Poh Kiat <sup>(1)</sup>	Independent Director	2008
TAN Aik-Leang <sup>(1)</sup>	Independent Director	2005
LU Yuming	Director and Chief Accountant	2014
PHUNG Khong Fock Thomas	Director	2017
HAN Yiyong <sup>(1)</sup>	Director and Company Secretary	2010
GU Tangsheng	Director	2005
LAI Tak Chuen Kelvin <sup>(3)</sup>	Director and Chief Business Controller	2011
TAY Hui Boon Kelly <sup>(3)</sup>	Financial Controller seconded to Yuchai	2008
LIU Hung Derek <sup>(3)</sup>	Deputy General Manager	2012
QIN Xiaohong	Vice President	2015
WANG Limin	Vice President	2015
TAN Guirong	Vice President	2015
NING Xingyong	Vice President	2015
CAI Xiaohong	Vice President	2017

<sup>(1)</sup> Also a Director of the Company.

<sup>(2)</sup> Also an Alternate Director of the Company to Mr. Yan Ping.

<sup>(3)</sup> Seconded to the Company, whose salaries and expenses are paid by the Company.

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For information about Messrs. Yan Ping, Gan Khai Choon, Neo Poh Kiat, Kwek Leng Peck, Tan Aik-Leang, Hoh Weng Ming, Phung Khong Fock Thomas and Han Yiyong, see Item 6. Directors, Senior Management and Employees – Directors and Executive Officers of the Company.

Mr. Wu Qiwei is the President and a Director of Yuchai and an Alternate Director of the Company to Mr. Yan Ping. 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. Lu Yuming was appointed the Chief Accountant of Yuchai with effect from February 3, 2015 after serving as Deputy Chief Accountant from November 25, 2013. He holds a Bachelor's degree in Financial Management (Capital Evaluation) from Zhejiang University and has worked in Yuchai's finance department since 2001.

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

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 ten years of experience in management costing and accounting and gained substantial experience from working in various parts of China.

Mr. Liu Hung Derek is the Assistant Vice President of International Sales of the Company and Deputy General Manager of the Marine and G-drive Engine Department of Yuchai. He has 15 years' experience in the diesel generator business from FG Wilson (Engineering) HK Ltd. He holds a Bachelor degree of Science in Applied Chemistry from the Hong Kong Baptist University and a Master's Degree in Marketing from the University of New South Wales in Australia.

Ms. Qin Xiaohong was appointed a Vice President of Yuchai in 2015. She joined Yuchai in 1990 and held the position of Chief Accountant from July 2007 to September 2013. She holds a Master's degree in Business Administration from Guangxi University.

Mr. Wang Limin was appointed a Vice President of Yuchai in 2015. He was appointed as a Deputy General Manager of Yuchai on January 1, 2013. He holds a Bachelor's degree in Vehicle Engineering from Hubei Automotive Industrial College.

Mr. Tan Guirong was appointed a Vice President of Yuchai in 2015 after serving as Vice General Manager from February 3, 2015. He holds a Master's degree in Business Administration from Huazhong University of Science and Technology.

Mr. Ning Xingyong was appointed a Vice President of Yuchai in 2015. He holds a Bachelor's degree in Foundry Engineering from Guangxi University.

Mr. Cai Xiaohong was appointed a Vice President of Yuchai with effect from December 19, 2017 after serving as Senior Quality Controller from October 14, 2016. He holds a Diploma in Engineering Machinery in Guangxi Hydropower College.

Mr. Ye Bin and Mr. Liang Qingyan relinquished their position as a Vice President of Yuchai in December 2017 respectively.

Pursuant to Yuchai's Articles of Association, Yuchai's shareholders have authority over all matters of importance relating to Yuchai, including (i) the review and approval of reports submitted by the Board of Directors of Yuchai; (ii) the approval of Yuchai's plans for distribution of profits and recovery of losses; (iii) 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; (iv) the issuance of new shares or other securities, the expansion of the scope of any subscription of shares, the conversion of Yuchai from a company with privately placed shares into a company with publicly offered shares in or outside of China, and the transfer procedures for Yuchai's share certificates; (v) the nomination, election, dismissal and compensation of members of the Board of Directors; (vi) significant sales or purchases of assets, or any division, merger, acquisition, termination, liquidation or other major corporate action of Yuchai; (vii) amendment to Yuchai's Articles of Association; (viii) motions presented by shareholders holding 10% or more of the outstanding shares of Yuchai; and (ix) 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.



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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) the formulation and review of Yuchai's development plans; (iii) the review of and decision on Yuchai's annual business plans; (iv) the review of Yuchai's financial budget, final accounts, dividend distribution plan, plans for issuances of Yuchai shares and plans for merger, division and transfer of assets; (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) the adoption of various corporate policies and rules; (vii) the appointment of senior executive officers as recommended by the Chief Executive Officer and their dismissals and the appointment of senior advisers to the Board; (viii) major external matters; (ix) 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; and (x) any other matters that may be determined by the Board of Directors in accordance with Yuchai's Articles of Association.

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 State Shares and Legal Person Shares. Actions generally may be taken by a majority vote of the directors present at a meeting at which a quorum is present. Attendance of at least seven directors (four representing holders of Foreign Shares and three representing holders of State Shares or Legal Person Shares) constitutes a quorum.

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, such as an amendment to Yuchai's Articles of Association, significant sales or purchases of assets or a division, merger, acquisition or liquidation of Yuchai, or issuances of new common shares or other securities 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 State 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 State 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.



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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 full 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, as of February 28, 2018, 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, 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. See also Item 3. Key Information Risk Factors Risks relating to our company and our business 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 fiscal year 2017, and subject to shareholders' approval at the annual general meeting, we will pay an annual service fee of US\$50,000 for all directors (pro-rated accordingly if a director resigns or assumes the position during the year) other than the President of the Company. For fiscal year 2017, and subject to shareholders' approval at the annual general meeting, we will pay 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. See Item 7. Major Shareholders and Related Party Transactions.

### **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 (as defined below).

### ***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 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.



**Table of Contents***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, 2017, there were 470,000 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, 2017 and February 28, 2018, all options granted have vested in the grantees.

Name	Options Outstanding	Exercise Price (US\$/Share)	Grant Date	Expiration Date
YAN Ping	200,000	\$ 21.11	July 29, 2014	July 28, 2024
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

470,000

*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.



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### *Non-transferability*

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

### *Amendment, Suspension and Termination*

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.

## **Benefits**

The aggregate amount of compensation paid to all directors and executive officers of the Company and Yuchai during 2017 was approximately RMB 79.3 million (US\$ 12.5 million).

There are no benefits to be provided to the directors of the Company or Yuchai upon their termination of employment. See also Item 10. Additional Information – Memorandum of Association and Bye-Laws – Directors – Remuneration and Pensions.

## **Employees**

As of December 31, 2015, 2016 and 2017, Yuchai employed approximately, 10,420, 9,887 and 8,678 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 8.4 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 2017, the total annual salary and bonus paid and payable to Yuchai's employees was RMB 1,219.1 million (US\$192.6 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, 2018 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, 2018.

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Identity of Person or Group	Number	Percentage
Hong Leong Asia Ltd <sup>(1)</sup>	16,360,845	40.0%
The Yulin City Government <sup>(2)</sup>	7,028,151	17.2%
Shah Capital Management <sup>(3)</sup>	3,258,869	8.0%

- <sup>(1)</sup> Information based upon an announcement by Hong Leong Asia on the Singapore Exchange on July 5, 2016 and a report on Schedule 13D jointly filed by Hong Leong Asia and its wholly-owned subsidiaries, Hong Leong China, HL Technology, Flite Technology Industries Pte Ltd and Lydale Pte Ltd, with the SEC on July 19, 2002, as amended from time to time, most recently on July 5, 2016. Hong Leong Asia is currently the beneficial owner of and exercises control over the special share and the 16,360,845 shares of Common Stock or approximately 40.0% of the total number of shares of Common Stock held by its wholly-owned subsidiaries, HL Technology and Well Summit Investments Limited, having increased its holdings from 34.9% to 35.5% during the period from March 11 to 26, 2014, from 35.5% to 37.02% during the period July 14 to December 26, 2014, from 37.02% to 38.7% during the period July 14 to August 25, 2015, from 38.7% to 40.2% as of June 29, 2016 and from 40.2% to 40.0% as of December 31, 2017. 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 Risks relating to our shares and share ownership 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.
- <sup>(2)</sup> Information based on a report on Schedule 13D filed by Coomber, Goldman, Zhong Lin and the State Holding Company, with the SEC on December 16, 2002, as amended from time to time, most recently on March 23, 2012. Based on Amendment No. 2 to the Schedule 13D filed by Coomber and others with the SEC on June 23, 2003, Coomber is a wholly-owned subsidiary of Goldman, which is indirectly owned and controlled by Yulin City Municipal Government, or Yulin City Government, in Guangxi Zhuang Autonomous Region, China. Accordingly, the Yulin City Government is the ultimate beneficial owner of the 7,028,151 shares of the Company's Common Stock held of record by Coomber. Based on Amendment No. 11 to the Schedule 13D filed by Coomber and others with the SEC on March 23, 2012, Goldman pledged all of its shares in Coomber to a third party in connection with a loan transaction entered into on March 19, 2012. Based on Amendment No. 12 to the Schedule 13D filed by Coomber and others with the SEC on December 18, 2012, a Deed of Release was entered into between Goldman and the third party on December 12, 2012 pursuant to which the latter released the pledge by Goldman described in Amendment No. 11.
- <sup>(3)</sup> Information based on a report on Form 13F filed by Shah Capital Management with the SEC on January 23, 2018 for the fourth quarter ended December 31, 2017.

As of February 28, 2018, 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 17 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 7,831,169 shares of Common Stock, which is greater than the number stipulated in the provisions of our Bye-Laws set forth above.



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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 US 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 Exchange Act 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.



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### **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 State Holding Company, 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, as of February 28, 2018, 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, 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. During fiscal year 2017, 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.

During fiscal year 2017, certain affiliates of Hong Leong Asia charged us RMB 6.9 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 2017, Yuchai (including its associates and joint ventures) entered into agreements with State Holding Company, its subsidiaries and affiliates for the sale and purchase of raw materials, supplies, scraps and diesel engines, lease of assets, as well as hospitality and restaurant services. For further details on these transactions, please see Note 30 to our consolidated financial statements appearing elsewhere herein.

We have undertaken other significant business transactions with related parties during the fiscal year ended December 31, 2017, as set forth under Note 30 to our consolidated financial statements appearing elsewhere herein.

## **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 proceedings that we believe would, individually or taken as a whole, adversely affect our financial condition or results of operations.

### **Proceedings with Yuchai**

We have previously encountered difficulties in obtaining the cooperation of the State Holding Company and Mr. Wang Jianming in the daily management and operation of Yuchai. The State Holding Company is a minority shareholder of Yuchai and is wholly-owned by the municipal government of Yulin City in 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 State Holding Company.

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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 State Holding Company 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 State Holding Company 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.

The high and low sales prices for shares of the Common Stock on the NYSE for the periods indicated were as follows:

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
2013	26.39	13.43
2014	24.94	16.60
2015	20.96	10.45
2016	13.98	8.49
2017	26.73	13.25

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
2016 First Quarter	10.77	8.49
2016 Second Quarter	11.82	9.09
2016 Third Quarter	11.48	10.47
2016 Fourth Quarter	13.98	10.43
2017 First Quarter	18.98	13.25
2017 Second Quarter	20.44	16.55
2017 Third Quarter	22.96	16.16
2017 Fourth Quarter	26.73	13.25
2018 First Quarter	27.98	19.85

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
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October 2017	23.94	21.61
November 2017	26.54	21.50
December 2017	26.73	23.00
January 2018	27.98	23.86
February 2018	26.61	22.26
March 2018	24.14	19.85

**Table of Contents****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 US companies. Under the NYSE rules, we need only (i) establish an independent audit committee that has specified responsibilities as described in the following table; (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules; (iii) provide periodic written affirmations to the NYSE with respect to our corporate governance practices; and (iv) provide a brief description of significant differences between our corporate governance practices and those followed by US companies.

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

**Standard for US Domestic Listed Companies  
Director Independence**

A majority of the board must consist of independent directors.

Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over US\$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.

The non-management directors of each company must meet at regularly scheduled executive sessions without management.

**China Yuchai International Limited's Practice**

Three of our eight directors, Messrs. Neo Poh Kiat, Tan Aik-Leang and Ho Raymond Chi-Keung are independent within the meaning of the NYSE standards.

As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.

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**Standard for US Domestic Listed Companies**

**China Yuchai International Limited's Practice**

**Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.

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.

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.

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 meets 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 US companies.

Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US 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 earnings 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.

The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.

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**Standard for US Domestic Listed Companies**

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.

**Equity-Compensation Plans**

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

**China Yuchai International Limited's Practice**

We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Yuchai maintains an independent internal audit function headed by a secondee appointed by the Company. The Head of Internal Audit reports to the Chairman of the Audit Committees of the Company and Yuchai who reports to the Boards. The Board of Yuchai approves the audit plan, review significant audit issues and monitors corrective actions taken by management.

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.

We intend to have our shareholders approve equity-compensation plans.



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**Standard for US Domestic Listed Companies**

**China Yuchai International Limited's Practice**

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.

**Code of Business Conduct and Ethics**

All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.

We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at <http://www.cyilimited.com>. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

**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.

***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 fiscal year 2014 at our annual general meeting held on June 11, 2015 and from US\$250,000 to US\$509,589 for fiscal year 2015 at our annual general meeting held on August 8, 2016. At our annual general meeting held on June 13, 2017, our shareholders approved the increase in the limit of the Directors' fee from US\$250,000 to US\$490,548 for the fiscal year 2016.

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Our Board of Directors may grant special remuneration to any Director who shall render any special or extra services to or at our request. 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.

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.

### ***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.

### ***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).

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### **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.

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.

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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**

The Renminbi currently is not a freely convertible currency. SAFE, under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers, or Swap Centers, open to Chinese enterprises and foreign invested enterprises, or FIEs, subject to SAFE's approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. In the year ended December 31, 1993, as much as 80% by value of all foreign exchange transactions in China took place through the Swap Centers. The exchange rate quoted by the Bank of China differed substantially from that available in the Swap Centers. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange system, 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.

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. During the few years prior to 1994, the Renminbi experienced a devaluation against most major currencies, and a devaluation of approximately 50% of the Renminbi against the US dollar occurred on January 3, 1994 in connection with the adoption of the new unitary exchange rate system. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. From July 21, 2005 to December 31, 2005, this change in policy resulted in an approximately 2.5% appreciation of the Renminbi against the US dollar. From December 31, 2005 to June 30, 2008, the Renminbi appreciated 15.0% against the US dollar. From July 2008 until June 2010, however, the Renminbi traded stably within a narrow range against the US dollar. 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, 2012 to December 31, 2016, the Renminbi depreciated about 11.4% 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.

Furthermore, the General Affairs Department of SAFE promulgated the Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Funded Enterprises (the Notice 142) in August 2008 and the Supplementary Notice on Issues Relating to the Improvement of Business Operations with Respect to the Administration over Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises in July 2011 (the Notice 88) (which were repealed in 2015 by the Notice 19 as defined below). Pursuant to the Notice 142 and the Notice 88, 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 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. With the effectiveness of such Measures, the Notice on Relevant Issues for Improving Foreign Debt Administration was abolished on May 13, 2013.

On May 10, 2013, SAFE issued the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China, which further simplified certain operating procedures for foreign direct investments.





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On January 10, 2014, SAFE issued the Notice on further Improving and Adjusting the Foreign Exchange Administration on Capital Accounts, which simplified the foreign exchange operating procedures for certain capital accounts, and has been further revised pursuant to the Notice of the State Administration of Foreign Exchange on Repealing and Revising the Normative Documents concerning the Reform for Registered Capital Registration System promulgated on May 4, 2015 and effective from May 4, 2015.

On July 4, 2014, SAFE issued the Notice on the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (the Notice 37 ), which became effective on July 4, 2014 and requires registration with SAFE (such registration will be conducted with relevant designated banks as specified by the Notice 13 (as defined below)) by the PRC resident shareholders of any foreign holding company of a PRC entity.

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 and relieved the explicit prohibition against the use of Renminbi converted from capital contribution in foreign currency (the Converted Renminbi ) into domestic equity investment, as provided in the Notice 142 and the Notice 88. According to the Notice 19, an ordinary FIE such as Yuchai, may make the equity investment by transferring the 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, 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.

## **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.



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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\$31,120 per annum.

### **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***

Under the formal Foreign Investment and Foreign Enterprises Law (the FEIT Law), any dividends payable by foreign-invested enterprises to non-PRC investors were exempt from any PRC withholding tax. This exemption is only applicable for revenues accumulated up to December 31, 2007.

In 2007, the PRC National People's Congress adopted a new tax law, China Unified Enterprise Income Tax Law (the CIT Law) and the State Council adopted the related implementation rules, or the Implementation Rules, which became effective on January 1, 2008. In accordance with the CIT Law and the 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), which became effective on December 1, 2017. According to the Announcement 37, the Circular concerning Strengthening the Administrative of Enterprise Income Tax on Income Derived from Transfer of Equity of Non-resident Enterprises (the Circular 698) has been 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.



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### ***Income Tax***

Under the FEIT Law, Sino-foreign joint stock companies generally are subject to an income tax at a rate of 33% comprising a national tax of 30% and a local tax of 3%. Prior to January 1, 2008, notwithstanding the FEIT Law prescribed tax rate of 33%, Yuchai was subject to a preferential income tax rate at 15% since January 1, 2002, based on certain qualifications imposed by the state and local tax regulations.

In 2007, the National People's Congress approved and promulgated a new tax law, the CIT Law, which became effective from January 1, 2008. Under the CIT Law, foreign invested enterprises and domestic companies are subject to a uniform corporate tax rate of 25%. The CIT Law provides a five-year transition period from its effective date for those enterprises, such as Yuchai, which were established before January 1, 2008 and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. During the transition period from 2008 to 2012, a transitional graduated tax rate will be applied from the existing preferential corporate tax rate to the uniform corporate tax rate of 25%.

Notwithstanding the CIT Law prescribed tax rate of 25%, Yuchai may continue to enjoy the reduced corporate tax rate of 15% if it qualifies under the Western Development Tax Incentive Scheme or High Technology Incentive Scheme.

The Western Development Incentive Scheme was first introduced in 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 applicable from 2001 to 2010. In 2011, the scheme was extended to 2020. In August 2014, the catalogue of qualifying industries for the Western Development Incentive Scheme was published. As engine manufacturing is one of the qualifying industries, Yuchai has applied to the tax authorities to qualify under this scheme. In the event that Yuchai's application is not successful, we may not be able to enjoy the preferential tax treatment offered under this scheme.

The High Technology Incentive was introduced in 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. In 2011, Yuchai was certified as a high technology company with effect from 2011 to 2013, so it may qualify for this scheme if certain other criteria are met. In 2014, Yuchai was certified as a high technology company with effect from 2014 to 2016, so it may qualify for this scheme if certain other criteria are met, and was certified again in 2017, as a high technology company with effect from 2017 until 2019, so it may qualify for this scheme if certain other criteria are met.

From 2008 to 2010, Yuchai was subject to the reduced corporate tax of 15% as it qualified under the Western Development Incentive Scheme. Since Yuchai operates in the Guangxi Zhuang Autonomous Region and had previously qualified under the Western Development Incentive Scheme, Yuchai believes that it still qualifies under this scheme and filed corporate tax returns at the reduced corporate tax rate of 15% from 2011 to 2014, subject to final approval by the local tax authority. Yuchai filed its corporate tax returns for 2015 and 2016 under the High Technology Incentive Scheme. In the event that Yuchai is not able to qualify for any of these incentive schemes, it would be subject to corporate tax at a rate of 25% as prescribed under the CIT Law. The majority of Yuchai's subsidiaries continue to be subject to the CIT Law prescribed tax rate of 25%.

The China tax bureau periodically conducts tax examinations. In 2015, the local tax bureau conducted its tax examination of Yuchai's PRC income tax returns from 2013 to 2014, being the years sampled for the current tax examinations. In May 2016, the local tax bureau issued its final report and no material issues were raised. However, any adverse findings or change in the tax legislation in China could have a material 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 tax resident enterprise under the CIT Law, our income tax expenses may increase and our profitability could decrease.

### ***Withholding Tax***

On March 28, 2011, the Chinese State Administration of Taxation promulgated the Announcement of the State Administration of Taxation on Certain Issues Concerning the Administration of Income Tax for Non-resident Enterprises (the Announcement 24), which has been revised in

accordance with Circular 7 and Announcement 37.

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On October 17, 2017, the Chinese State Administration of Taxation issued the Announcement 37 (as defined above), which became effective on December 1, 2017. According to which, the Interim Measures for the Administration of Withholding of the Source of Enterprise Income Tax for Non-resident Enterprises (the Interim Measures ) has been repealed.

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 tax on its sales. With effect from November 19, 2017, the amended Value-Added Tax Provisional Regulations subject all goods produced or processed in China, other than real property and goods produced or processed for export, to a value-added tax or VAT at each stage or sale in the process of manufacture, processing, distribution and sale to the ultimate consumer. Commencing from 2012, the application of VAT has been gradually expanded to certain industries through a VAT pilot program to replace business and services taxes. On May 1, 2016, following the completion of the VAT pilot program, VAT was extended to cover the construction, real estate, finance and consumer services sectors. The basic VAT rate is 17% of the sales price of the item, although certain goods are assessed at a preferential VAT rate of 13%. The VAT applicable to the services sector is assessed at a rate of between 3% - 17%.

The seller of the goods adds 17% to the sale price of the item. The VAT amount is separately listed in the normal invoice (except in the case of retail sales), and the seller collects the applicable amount of VAT through the sale of the item. The amount of the seller's VAT liability to the Taxation Bureau is calculated as the amount of sales multiplied by the applicable VAT rate. The amount of the seller's VAT liability may be reduced by deducting the VAT included in the fixed assets (excluding those used exclusively in non-VAT taxable, VAT exempted and welfare activities, or for personal consumption, or their combination), materials, parts and other items purchased by the seller and used in producing the goods.

### **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 capital assets 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,



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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,

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 recently enacted 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.

*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.

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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, 2017. 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:

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.

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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**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC maintains a website at [www.sec.gov](http://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 over the Internet.

## **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, 2017, we had outstanding consolidated loans of RMB 1,626.3 million (US\$257.0 million).

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The Company is exposed to the following market risk.

**Market risk**

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

**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 16. 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, 2017 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, 2017 of the Company would increase/decrease by RMB 22.0 million (US\$3.5 million) (2016: profit increase/decrease by RMB 15.7 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 2016 and 2017 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.

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

	Singapore Dollar RMB	Euro RMB	United States Dollar RMB (in thousands)	Renminbi RMB	Others RMB
<b>2016</b>					
Held for trading investment	12,181				
Trade and other receivables	957	9,232	15,032	31,679	982
Cash and bank balances	117,763	3,841	7,247		
Financial liabilities	(33,686)		(104,055)		
Trade and other payables	(12,991)	(10,763)	(5,873)	(1,410)	
	84,224	2,310	(87,649)	30,269	982



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2017	Singapore	Euro	United	Renminbi	Others
	Dollar		Dollar		
	RMB	RMB	RMB	RMB	RMB
	(in thousands)				
Held for trading investment	24,714				
Trade and other receivables	725		34,727	469	
Cash and bank balances	418,875	1,486	16,068		498
Financial liabilities	(14,715)				
Trade and other payables	(13,748)	(10,857)	(5,574)	(35,505)	(24)
	415,851	(9,371)	45,221	(35,036)	474
US\$	65,701	(1,481)	7,145	(5,535)	75

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.

	2016	2017	2017
	RMB	RMB	US\$
	(in thousands)		
Singapore dollar	8,422	41,585	6,570
Euro	231	(937)	(148)
United States dollar	(8,765)	4,522	714
Renminbi	3,027	(3,504)	(554)

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.

**PART II****ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

There has not been any dividend arrearage or other material delinquency with respect to preferred stock of either the Company or Yuchai.

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

Not Applicable.

**ITEM 15. CONTROLS AND PROCEDURES****A. Evaluation of 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.

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### **B. Management's Assessment of 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, 2017 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, 2017. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting, expressing an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2017.

### **C. Report of Independent Registered Public Accounting Firm on Internal Controls**

The report of our independent registered public accounting firm on the effectiveness of the Company's internal controls over financial reporting is included on page F-2 of this Annual Report.

### **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.

**Table of Contents****ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

As of the date of this report, the Company's Audit Committee members are Messrs. Tan Aik-Leang (Chairman), Neo Poh Kiat, and Ho Raymond Chi-Keung. See Item 6. Directors, Senior Management and Employees for their experience and qualifications. Pursuant to SEC rules, the Board has designated Mr. Tan Aik-Leang as the Company's Audit Committee Financial Expert.

**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.cvilimited.com>. Since adoption of the Company's Code of Business Conduct and Ethics Policy, the Company has not granted any waivers or exemption therefrom.

**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:

	<b>Audit fees RMB</b>	<b>Audit- related fees RMB</b>	<b>Others RMB</b>	<b>Total RMB</b>
	(in thousand)			
2016	2,540 <sup>(1)</sup>	528	33 <sup>(3)</sup>	3,101
2017	7,451 <sup>(2)</sup>	940	264 <sup>(3)</sup>	8,655

(1) Represents the audit fees billed to the Company (excluding HLGE) by its independent registered public accounting firm for fiscal year 2016. The remaining audit fees of RMB 6.3 million were billed in 2017.

(2) Represents the audit fees billed to the Company (excluding HLGE) by its independent registered public accounting firm for fiscal year 2017. The remaining audit fees of RMB 5.7 million had not been billed as of February 28, 2018.

(3) Represents professional service charges billed to the Company (excluding HLGE) by its independent registered public accounting firm for the relevant year for anti-corruption and anti-bribery training activities in fiscal year 2016 and IFRS training activities in fiscal year 2017.

**Audit fees**

Services provided are all pre-approved by the Company's Audit Committee and primarily consist of professional services relating to the annual audits of consolidated financial statements as well as statutory audits required by foreign jurisdictions and quarterly reviews.

**Audit-related fees**

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.

**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.

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**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 US 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 US companies. Our audit committee consists of three directors: Tan Aik-Leang (Chairman), Neo Poh Kiat and Ho Raymond Chi-Keung. Each of Messrs. Tan, Neo and Ho 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 US companies can be found in Item 10. Additional Information Memorandum of Association and Bye-Laws Corporate Governance.

**ITEM 16H. MINE SAFETY DISCLOSURE**

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**

**Index to Financial Statements**

**China Yuchai International Limited**

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<u>Consolidated Statement of Comprehensive Income for years ended December 31, 2015, 2016, and 2017</u>	F-5
<u>Consolidated Statement of Financial Position as of December 31, 2016 and 2017</u>	F-6
<u>Consolidated Statement of Changes in Equity for years ended December 31, 2015, 2016, and 2017</u>	F-8
<u>Consolidated Statement of Cash Flows for years ended December 31, 2015, 2016, and 2017</u>	F-11
<u>Notes to the Consolidated Financial Statements for years ended December 31, 2015, 2016, and 2017</u>	F-14

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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).
- 1.2 Bye-laws of the Registrant (incorporated herein by reference to the Form F-1).
- 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)).
- 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).
- 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).
- 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).
- 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)).
- 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).
- 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)).
- 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)).
- 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).
- 4.7 Form of indemnification agreement entered into by the Registrant with its officers and directors (incorporated herein by reference to the Form 20-F FY2013).
- 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)).
- 4.10 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)).

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- 4.11 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)).
- 4.12 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)).
- 8.1 Subsidiaries of the Registrant. (Filed herewith)
- 10.1 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)).
- 12.1 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)
- 12.2 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)
- 13.1 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)
- 13.2 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)
- 15.1 Consent of Independent Registered Public Accounting Firm. (Filed herewith)

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.

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**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 16, 2018



**Table of Contents****Exhibit Index****Exhibit****Number****Description of Exhibit**

- 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).<sup>(P)</sup>
- 1.2 Bye-laws of the Registrant (incorporated herein by reference to the Form F-1).<sup>(P)</sup>
- 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)).<sup>(P)</sup>
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- 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)).<sup>(P)</sup>
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- 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).<sup>(P)</sup>
- 4.7 Form of indemnification agreement entered into by the Registrant with its officers and directors ((incorporated herein by reference to the Form 20-F FY2013).
- 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)).
- 4.10

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)).

**Table of Contents****Exhibit**

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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>

<sup>(P)</sup> 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.

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

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

#### **Basis for Opinion**

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

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

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

/s/ Ernst & Young LLP

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

Singapore

April 16, 2018

## **Table of Contents**

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

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

#### **Basis for Opinion**

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

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

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

#### **Definition and Limitations of Internal Control Over Financial Reporting**

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

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

/s/ Ernst & Young LLP

Singapore

April 16, 2018

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**Table of Contents****China Yuchai International Limited****Consolidated Statement of Profit or Loss***(RMB and US\$ amounts expressed in thousands, except per share data)*

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

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



**Table of Contents****China Yuchai International Limited****Consolidated Statement of Comprehensive Income***(RMB and US\$ amounts expressed in thousands, except per share data)*

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Profit for the year</b>	509,320	723,608	1,405,070	221,991
<b>Other comprehensive income</b>				
<i>Items to be reclassified to profit or loss in subsequent periods, net of tax:</i>				
Foreign currency translation	31,533	36,394	(72,271)	(11,417)
Realization of foreign currency translation reserves upon disposal of foreign operation			(4,252)	(673)
Realization of foreign currency translation reserves upon liquidation of foreign operation	144			
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax	31,677	36,394	(76,523)	(12,090)
<b>Total comprehensive income for the year, net of tax</b>	540,997	760,002	1,328,547	209,901
<b>Attributable to:</b>				
Equity holders of the parent	375,646	555,355	892,222	140,965
Non-controlling interests	165,351	204,647	436,325	68,936
	540,997	760,002	1,328,547	209,901

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

	Note	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	11	4,127,185	3,824,018	604,168
Investment property	12	7,298	7,434	1,174
Prepaid operating leases	13	379,636	367,270	58,026
Goodwill	14	212,636	212,636	33,595
Intangible assets	15	81,826	10,122	1,599
Investment in associates and joint ventures	5,6	180,187	198,287	31,328
Deferred tax assets	9	308,207	315,390	49,829
Long-term bank deposits	23		70,000	11,060
Other receivables	21	1,588	620	98
Other assets	19		303	48
		5,298,563	5,006,080	790,925
<b>Current assets</b>				
Inventories	18	1,663,879	2,572,745	406,475
Trade and bill receivables	20	7,057,256	7,031,544	1,110,934
Other receivables and prepayments	21	386,365	384,390	60,731
Prepaid operating leases	13	12,546	12,546	1,982
Other assets	19	35,559	48,547	7,670
Cash and cash equivalents	23	3,653,914	5,390,324	851,633
Short-term bank deposits	23	363,043	514,074	81,220
Restricted cash	23	36,000	54,809	8,659
Asset classified as held for sale	22	89,381		
		13,297,943	16,008,979	2,529,304
<b>Total assets</b>		<b>18,596,506</b>	<b>21,015,059</b>	<b>3,320,229</b>

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

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

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

	Attributable to the equity holders of the parent					Premium		Paid for		Total	Non-controlling interests	Total equity
	Preference shares Issued capital (Note 24)	Statutory reserves (Note 26)	Capital reserves	Retained earnings	Foreign currency translation reserve	Performance shares reserve	Other reserve on transaction with non-controlling interests	acquisition of non-controlling interests	Non-controlling interests			
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
At January 1, 2015	1,840,227	21	302,780	2,932	4,924,767	(95,395)	5,263	8,762	(925)	6,988,432	2,163,382	9,151,814
Profit for the year					341,108					341,108	168,212	509,320
Other comprehensive income for the year, net of tax						34,538				34,538	(2,861)	31,677
Total comprehensive income for the year					341,108	34,538				375,646	165,351	540,997
<b>Transactions with owners, recorded directly in equity</b>												
<i>Contributions by and distributions to owners</i>												
Shares issued during the year (Note 24)	115,493									115,493		115,493
Dividends paid to non-controlling interests											(108,511)	(108,511)
Dividends declared and paid (US\$1.10 per share)					(257,500)					(257,500)		(257,500)
Cost of share-based payments (Note 27)							10,275			10,275		10,275
<i>Changes in ownership interests in subsidiaries</i>												
Disposal of a subsidiary			(5,891)		5,891							
Acquisition of non-controlling interests				28,022				(8,762)	(11,989)	7,271	(29,770)	(22,499)
<i>Other</i>												
Transfer to statutory reserves			1,332		(1,332)							
At December 31, 2015	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538		(12,914)	7,239,617	2,190,452	9,430,069

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

**Table of Contents****China Yuchai International Limited****Consolidated Statement of Changes in Equity***(RMB and US\$ amounts expressed in thousands, except per share data)*

	Attributable to the equity holders of the parent										Non-controlling interests	Total equity
	Domestic					Foreign						
	Issued capital	Preference shares	Statutory reserves	Capital reserves	Retained earnings	currency translation reserve	Performance of shares held for sale	asset classified as non-controlling interests	(Premium paid for)/ discount on acquisition	Total		
RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	
At January 1, 2016	1,955,720	21	298,221	30,954	5,012,934	(60,857)	15,538		(12,914)	7,239,617	2,190,452	9,430,069
Profit for the year					515,737					515,737	207,871	723,608
Other comprehensive income for the year, net of tax						39,618				39,618	(3,224)	36,394
Total comprehensive income for the year					515,737	39,618				555,355	204,647	760,002
<b>Transactions with owners, recorded directly in equity</b>												
<i>Contributions by and distributions to owners</i>												
Shares issued during the year (Note 24)	103,356									103,356		103,356
Dividends paid to non-controlling interests											(84,450)	(84,450)
Dividends declared and paid (US\$0.85 per share) (Note 25)					(221,549)					(221,549)		(221,549)
Cost of share-based payments (Note 27)							5,301			5,301		5,301
<i>Changes in ownership interest in subsidiaries</i>												
Acquisition of non-controlling interests									1,754	1,754	(8,671)	(6,917)
<i>Others</i>												
Transfer to statutory reserves			923		(923)							
Reserve attributable to asset classified as held for sale						(22,720)		22,720				
At December 31, 2016	2,059,076	21	299,144	30,954	5,306,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812

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

**Table of Contents****China Yuchai International Limited****Consolidated Statement of Changes in Equity***(RMB and US\$ amounts expressed in thousands, except per share data)*

	Attributable to the equity holders of the parent										Non-controlling interests	Total equity	
	Issued capital	Preferred shares	Statutory reserves	Capital reserves	Retained earnings	Foreign translation reserve	Performance shares reserve	Reserve of asset classified as held for sale	(Premium paid for)/ discount on acquisition of non-controlling interests	Total			
	(Note 24)	(Note 24)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
At January 1, 2017	2,059,076	21	299,144	30,954	5,306,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812	
Profit for the year					953,922					953,922	451,148	1,405,070	
Other comprehensive income for the year, net of tax						(38,980)		(22,720)		(61,700)	(14,823)	(76,523)	
Total comprehensive income for the year					953,922	(38,980)		(22,720)		892,222	436,325	1,328,547	
<b>Transactions with owners, recorded directly in equity</b>													
<i>Contributions by and distributions to owners</i>													
Shares issued during the year (Note 24)	22,062									22,062		22,062	
Dividends paid to non-controlling interests											(98,941)	(98,941)	
Dividends declared and paid (US\$0.90 per share) (Note 25)					(248,844)					(248,844)		(248,844)	
Cost of share-based payments (Note 27)								1,592		1,592		1,592	
Exercise of share option								(2,673)		(2,673)		(2,673)	
<i>Changes in ownership interests in subsidiaries</i>													
Acquisition of non-controlling interests				(250)					(381)	(631)	(7,648)	(8,279)	
<i>Other</i>													
Transfer to statutory reserves			1,882		(1,882)								
At December 31, 2017	2,081,138	21	301,026	30,704	6,009,395	(82,939)	19,758		(11,541)	8,347,562	2,631,714	10,979,276	
US\$ 000	328,805	3	47,560	4,851	949,441	(13,104)	3,122		(1,823)	1,318,855	415,792	1,734,647	

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



**Table of Contents****China Yuchai International Limited****Consolidated Statement of Cash Flows***(RMB and US\$ amounts expressed in thousands, except per share data)*

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
<b>Operating activities</b>				
Profit before tax	686,138	883,878	1,625,237	256,776
Adjustments:				
Amortization of prepaid operating leases	13,433	12,819	12,366	1,954
Bad debt written off			10	2
Cost of share-based payments	10,275	5,301	1,592	252
Depreciation of property, plant and equipment	456,002	465,093	431,567	68,184
Depreciation of investment property		248	248	39
Dividend income from held for trading investment		(943)	(2,532)	(400)
Exchange loss/(gain)	45,354	(3,407)	(8,319)	(1,315)
Fair value (gain)/loss on foreign exchange forward contract	(15,506)	140		
Fair value loss/(gain) on held for trading investment	10,871	243	(12,768)	(2,017)
Finance costs	116,351	79,683	100,439	15,869
(Gain)/loss on disposal of:				
- associate			(199)	(31)
- joint venture			(107,976)	(17,059)
- intangibles asset			(115,235)	(18,206)
- prepaid operating leases	(2,511)			
- property, plant and equipment	14,874	14,020	(11,668)	(1,843)
- subsidiaries	13,647		(216,115)	(34,145)
Gain on liquidation of joint venture	(348)			
Government grants	(19,597)	(36,533)	(28,035)	(4,430)
Interest income	(41,314)	(56,983)	(105,421)	(16,656)
Impairment losses on intangible asset	26,700	1,131	40,000	6,320
Impairment losses on property, plant and equipment	2,873	3,297	20,845	3,293
Impairment losses/(reversal of impairment losses) on trade receivables, net	32,938	3,696	(10,854)	(1,715)
Loss on dilution of equity interest in joint venture	2,848			
Property, plant and equipment written off	4,931	5	5,682	898
Share of loss/(profit) of associates and joint ventures, net of tax	2,691	3,612	(10,054)	(1,589)
Write-down/(reversal of write-down) of inventories, net	35,260	(5,171)	(19,901)	(3,144)
Write-back of trade and other payables	(9)		(29)	(5)
Write-back of allowance for anticipated losses on development properties	(2,976)			
Profit before tax after adjustments	1,392,925	1,370,129	1,588,880	251,032

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

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Changes in working capital</b>				
Decrease/(increase) in inventories	168,176	55,299	(897,437)	(141,789)
Decrease in trade and other receivables	700,571	122,192	31,121	4,917
(Decrease)/increase in trade and other payables	(439,180)	861,488	850,201	134,326
Decrease in development properties			377	60
<b>Cash flows from operating activities</b>	<b>1,822,492</b>	<b>2,409,108</b>	<b>1,573,142</b>	<b>248,546</b>
Income taxes paid	(135,774)	(133,021)	(202,975)	(32,069)
<b>Net cash flows from operating activities</b>	<b>1,686,718</b>	<b>2,276,087</b>	<b>1,370,167</b>	<b>216,477</b>
<b>Investing activities</b>				
Additional investment in subsidiaries	(22,499)	(9,076)	(8,279)	(1,308)
Additional investment in associates and joint ventures	(2,591)	(1,255)	(75,000)	(11,849)
Dividend received from:				
- held for trading investment		943	2,532	400
- joint ventures	1,190	598	754	119
Interest received	46,402	56,734	108,481	17,139
Net cash inflow on liquidation of a joint venture	1,763			
Proceeds from disposal of:				
- associate			1,832	289
- intangible assets			50,000	7,900
- joint venture			182,679	28,862
- prepaid operating leases	4,505			
- property, plant and equipment	6,602	667	15,640	2,471
- subsidiaries, net of cash disposed	170,703		341,602	53,971
Proceeds from government grants	39,558	13,639	50,095	7,915
Purchase of property, plant and equipment	(397,817)	(351,472)	(289,472)	(45,735)
Withdrawal/(placement) of fixed deposits with banks, net	126,688	(282,809)	(254,294)	(40,177)
<b>Net cash flows (used in)/from investing activities</b>	<b>(25,496)</b>	<b>(572,031)</b>	<b>126,570</b>	<b>19,997</b>

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

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Financing activities</b>				
Dividends paid to:				
- equity holders of the parent	(142,007)	(118,193)	(235,947)	(37,278)
- non-controlling interests	(94,899)	(87,975)	(97,009)	(15,327)
Interest paid and discounting on bills receivable	(108,279)	(110,774)	(107,246)	(16,944)
Payment of finance lease liabilities	(85)	(61)	(38)	(6)
Proceeds from:				
- borrowings	2,534,384	1,255,659	1,814,618	286,697
- issue of bonds	398,777			
- issue of shares			6,617	1,045
(Placement)/withdrawal of fixed deposits pledged with banks for banking facilities	(300,564)	300,564		
Repayment of borrowings	(2,772,862)	(2,793,206)	(1,100,133)	(173,813)
<b>Net cash flows (used in)/from financing activities</b>	<b>(485,535)</b>	<b>(1,553,986)</b>	<b>280,862</b>	<b>44,374</b>
Net increase in cash and cash equivalents	1,175,687	150,070	1,777,599	280,848
Cash and cash equivalents at January 1	2,291,345	3,474,364	3,653,914	577,292
Effect of exchange rate changes on balances in foreign currencies	7,332	29,480	(41,189)	(6,507)
<b>Cash and cash equivalents at December 31</b>	<b>3,474,364</b>	<b>3,653,914</b>	<b>5,390,324</b>	<b>851,633</b>

**Significant non-cash transactions**

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

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

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**1. Corporate information****1.1 Incorporation**

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

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

**1.2 Investment in Guangxi Yuchai Machinery Company Limited**

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

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

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

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

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

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

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

**(i) Loan Agreement**

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

#### **1. Corporate information (cont d)**

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

##### ***Relating to Yuchai's equity interest in Jining Yuchai Engine Company Limited (cont d)***

##### **(i) Loan Agreement (cont d)**

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

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

##### **(ii) Management Agreement**

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

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

In November 2017, Yuchai acquired the entire equity interest in Jining Yuchai for a cash consideration of RMB250 from the Purchaser. The acquisition was made pursuant to the irrevocable option to acquire the shares in Jining Yuchai granted to Yuchai.

#### **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.

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

#### **1. Corporate information (cont d)**

##### **1.3 Investment in HL Global Enterprises Limited (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 at December 31, 2015, Group's interest in HLGE was 50.2%, net of the ordinary shares held by the Trustee under the Trust.

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

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

#### **2. Basis of preparation and accounting policies**

##### **2.1 Basis of preparation**

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

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

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

##### **2.2 Basis of consolidation**

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

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee

The ability to use its power over the investee to affect its returns

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

The contractual arrangement with the other vote holders of the investee

Rights arising from other contractual arrangements

The Group's voting rights and potential voting rights

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



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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.2 Basis of consolidation (cont d)**

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

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

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

##### **2.3 Summary of significant accounting policies**

###### **(a) Business combinations and goodwill**

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

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

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

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

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

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

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

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## **Table of Contents**

### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(b) Investments in associates and joint ventures**

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 (loss)/profit of associates and joint ventures, net of tax in the statement of profit or loss.

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



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**China Yuchai International Limited**

**Notes to the Consolidated Financial Statements**

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

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

**2.3 Summary of significant accounting policies (cont d)**

**(c) Current versus non-current classification**

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

Expected to be realized or intended to be sold or consumed in normal operating cycle

Held primarily for the purpose of trading

Expected to be realized within twelve months after the reporting period, or

Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

It is expected to be settled in normal operating cycle

It is held primarily for the purpose of trading

It is due to be settled within twelve months after the reporting period, or

There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

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

**(d) Fair value measurement**

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

Quoted equity shares Note 35

Foreign exchange forward contract Note 35

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

In the principal market for the asset or liability, or

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

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

#### **2.3 Summary of significant accounting policies (cont d)**

##### **(d) Fair value measurement (cont d)**

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

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

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable  
For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

##### **(e) Foreign currency translation**

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

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

#### ***Transactions and balances***

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

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

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

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

### ***Group companies***

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



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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(e) Foreign currency translation (cont d)**

#### ***Group companies (cont d)***

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

###### **(f) Revenue recognition**

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

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

#### ***Sale of goods***

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

#### ***Sale of completed development properties***

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

#### ***Rendering of services***

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

#### ***Interest income***

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

### ***Rental income***

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

### ***Dividends***

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(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

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:

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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.

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**China Yuchai International Limited**

**Notes to the Consolidated Financial Statements**

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

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

**2.3 Summary of significant accounting policies (cont d)**

**(h) Taxes (cont d)**

*Deferred tax (cont d)*

Deferred tax 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.

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

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

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

*Sales tax*

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

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

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

**(i) Non-current assets held for sale**

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

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

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

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

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

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

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

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**2. Basis of preparation and accounting policies (cont d)****2.3 Summary of significant accounting policies (cont d)****(j) Cash dividend and non-cash distribution to equity holders of the parent (cont d)**

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

**(k) Property, plant and equipment**

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

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

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

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

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

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

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

that extend the life of assets are capitalized.

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

**(l) Investment properties**

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

Investment properties are initially recognized at cost, including transaction costs and subsequently carried at cost less accumulated depreciation and impairment losses. Depreciation is recognized in profit or loss on a straight-line basis over the



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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(l) Investment properties (cont d)**

estimated useful lives of the investment properties. The estimated useful life is 30 years. Depreciation methods, useful lives and residual values of investment properties are reassessed at each reporting date.

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

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

###### **(m) Research and development costs**

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

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

The technical feasibility of completing the intangible asset so that the asset will be available for use or sale

Its intention to complete and its ability to use or sell the asset

How the asset will generate future economic benefits

The availability of resources to complete the asset

The ability to measure reliably the expenditure during development

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

**(n) Financial instruments initial recognition and subsequent measurement**

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

**Financial assets**

***Initial recognition and measurement***

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

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

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

***Subsequent measurement***

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

Financial assets at fair value through profit or loss

Loans and receivables

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

#### **2.3 Summary of significant accounting policies (cont d)**

##### **(n) Financial instruments initial recognition and subsequent measurement (cont d)**

#### **Financial assets (cont d)**

##### *Subsequent measurement (cont d)*

Held-to-maturity investments

Available-for-sale financial assets

*Financial assets at fair value through profit or loss*

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

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

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

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

##### *Loans and receivables*

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

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

*Held-to-maturity investments*

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

#### **2.3 Summary of significant accounting policies (cont d)**

##### **(n) Financial instruments initial recognition and subsequent measurement (cont d)**

#### **Financial assets (cont d)**

##### ***Subsequent measurement (cont d)***

##### ***Available-for-sale ( AFS ) financial assets***

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

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

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

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

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

##### ***Derecognition***

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

The rights to receive cash flows from the asset have expired, or

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

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

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

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**China Yuchai International Limited**

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

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

**2.3 Summary of significant accounting policies (cont d)**

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

**Impairment of financial assets**

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

*Financial assets carried at amortized cost*

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

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

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

*AFS financial assets*

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

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

loss; increases in their fair value after impairment are recognized in OCI.

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

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



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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(n) Financial instruments initial recognition and subsequent measurement (cont d)**

###### ***Impairment of financial assets (cont d)***

###### ***AFS financial assets (cont d)***

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

### **Financial liabilities**

#### ***Initial recognition and measurement***

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

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

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

#### ***Subsequent measurement***

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

##### ***Financial liabilities at fair value through profit or loss***

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

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

instruments.

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

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

*Loans and borrowings*

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

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

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

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### **China Yuchai International Limited**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(n) Financial instruments initial recognition and subsequent measurement (cont d)**

#### **Financial liabilities (cont d)**

##### *Derecognition*

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

##### **Offsetting of financial instruments**

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

###### **(o) Derivative financial instruments**

###### ***Initial recognition and subsequent measurement***

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

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

The Group does not apply hedge accounting.

###### **(p) Inventories**

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

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

Raw materials: purchase cost on a weighted average basis

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

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

**(q) Impairment of non-financial assets**

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(q) Impairment of non-financial assets (cont d)**

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

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

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

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

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

###### **(r) Cash and cash equivalents**

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

###### **(s) Leases**

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

###### ***Prepaid operating lease***

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

*Group as a lessee*

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

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

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

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

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#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.3 Summary of significant accounting policies (cont d)**

###### **(s) Leases (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. 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.

###### **(t) Borrowing costs**

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

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

###### **(u) Provisions**

###### ***General***

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

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

###### ***Product warranty***

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

**(v) Pensions and other post-employment benefits**

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



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**China Yuchai International Limited**

**Notes to the Consolidated Financial Statements**

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

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

**2.3 Summary of significant accounting policies (cont d)**

**(w) Share-based payments**

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

*Equity-settled transactions*

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

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

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

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

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

**(x) Development properties**

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

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

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

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

**(y) Segment reporting**

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

### **2.4 Changes in accounting policy and disclosures New and amended standards and interpretations**

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

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

#### ***IAS 7 Disclosure Initiative Amendments to IAS 7***

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 36.

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

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

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

#### ***IFRS Practice Statement 2: Making Materiality Judgements***

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

The PS comprises guidance in three main areas:

- (i) General characteristics of materiality
- (ii) A four-step process that may be applied in making materiality judgements when preparing financial statements. This process describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure.

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(iii) How to make materiality judgements in specific circumstances, namely, prior period information, errors and covenants and in the context of interim reporting.

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

#### **2.4 Changes in accounting policy and disclosures (cont d)**

#### **Annual improvements 2014-2016 cycle**

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

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

These amendments have no material impact to the Group.

#### **2.5 Standards issued but not yet effective**

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

#### **IFRS 9 *Financial Instruments***

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

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

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

The Group does not apply hedge accounting.

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

#### **(a) Classification and measurement**

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

#### **IFRS 9 Financial Instruments (cont d)**

##### **(b) Impairment**

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

##### **(c) Other adjustments**

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

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

#### **IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

##### **(a) Warranty obligation**

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

the transaction price to this performance obligation.

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



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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

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

##### **(b) Variable consideration**

###### *Volume rebates and trade discounts*

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

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

###### *Rights of return*

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

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

##### **(c) Performance obligation**

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

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

##### **(d) Presentation and disclosure requirements**

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

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

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**China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**2. Basis of preparation and accounting policies (cont d)****2.5 Standards issued but not yet effective (cont d)*****Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

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

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

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

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

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

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

***IFRS 16 Leases***

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

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

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

###### ***IFRS 17 Insurance Contracts***

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

A specific adaptation for contracts with direct participation features (the variable fee approach)

A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

###### ***IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration***

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

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

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

- (i) The beginning of the reporting period in which the entity first applies the interpretation, or

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

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

**IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments***

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

The Interpretation specifically addresses the following:

Whether an entity considers uncertain tax treatments separately

The assumptions an entity makes about the examination of tax treatments by taxation authorities

How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

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

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

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

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

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

(i) Temporary exemption from IFRS 9

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

(ii) The overlay approach

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

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

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

#### ***Transfers of Investment Property -Amendments to IAS 40***

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

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

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

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

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

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

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

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



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**China Yuchai International Limited**

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

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

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

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

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

The amendments clarify that:

- (i) An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- (ii) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

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

***Prepayment Features with Negative Compensation Amendments to IFRS 9***

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

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

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

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

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

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

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

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

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

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

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

The amendment do not have any impact on the Group.

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

###### ***IFRS 3 Business Combinations Previously held Interests in a joint operation***

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

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

The Group does not plan to early adopt the amendments.

###### ***IFRS 11 Joint Arrangements Previously held Interests in a joint operation***

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

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

The Group does not plan to early adopt the amendments.

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

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

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

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

##### **2.5 Standards issued but not yet effective (cont d)**

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

#### **IAS 23 Borrowing Costs *Borrowing costs eligible for capitalization***

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

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

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

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

#### **3. Significant accounting judgments, estimates and assumptions**

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

##### **3.1 Judgments**

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**3. Significant accounting judgments, estimates and assumptions (cont d)****3.1 Judgments (cont d)*****Consolidation of a structured entity***

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

***Derecognition of bills receivable***

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

***Deferred tax assets***

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

**3.2 Estimates and assumptions**

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

***Impairment of non-financial assets***

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

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### **China Yuchai International Limited**

#### **Notes to the Consolidated Financial Statements**

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

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

#### **3.2 Estimates and assumptions (cont d)**

##### ***Impairment of trade receivables***

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

##### ***Allowance for inventory obsolescence***

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

##### ***Provision for product warranty***

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(u). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2016 and 2017 were RMB 238,850 and RMB 290,306 (US\$45,866) respectively.

##### ***Withholding tax***

The China's Unified Enterprise Income Tax Law ( CIT law ) also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of deferred tax liabilities for withholding tax payable as of December 31, 2016 and 2017 are RMB 103,347 and RMB 100,572 (US\$15,890) respectively.

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



**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***4. Investments in subsidiaries**

Details of significant subsidiaries of the Group are as follows:

Name of significant subsidiary	Place of incorporation/ business	Group's effective equity interest	
		31.12.2016	31.12.2017
		%	%
Guangxi Yuchai Machinery Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Machinery Monopoly Development Co., Ltd	People's Republic of China	54.9	54.9
Guangxi Yuchai Accessories Manufacturing Company Limited	People's Republic of China	76.4	76.4
Guangxi Yuchai Equipment Mould Company Limited (formerly known as Guangxi Yulin Yuchai Accessories Manufacturing Company Limited)	People's Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People's Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited <sup>(i)</sup>	People's Republic of China		76.4
Yuchai Remanufacturing Services (Suzhou) Co., Ltd.	People's Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

Note:

<sup>(i)</sup> In September, 2014, Yuchai disposed its 70% equity interest in Jining Yuchai. Subsequently, through contractual arrangements, Yuchai obtained 100% control in Jining Yuchai. In November, 2017, Yuchai acquired 100% equity interest in Jining Yuchai, As a result, Jining Yuchai became a wholly owned subsidiary of Yuchai. For details, please refer to Note 1.2.

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

	31.12.2015	31.12.2016	31.12.2017
<b>Proportion of equity interest held by NCI</b>			
Yuchai	23.6%	23.6%	23.6%

	31.12.2015	31.12.2016	31.12.2017	31.12.2017
	RMB 000	RMB 000	RMB 000	US\$ 000
<b>Accumulated balances of material NCI</b>				

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Yuchai		2,253,207	2,437,215	385,063
<b>Profit allocated to material NCI</b>				
Yuchai	129,088	210,013	290,497	45,896
<b>Dividends paid to material NCI</b>				
Yuchai	100,412	83,677	98,941	15,632

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***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:

	<b>31.12.2015</b>
	<b>Yuchai</b>
	<b>RMB 000</b>
<b>Summarized statement of comprehensive income</b>	
Revenue	13,671,931
Profit for the year, representing total comprehensive income for the year	547,216
Attributable to NCI	129,088
<b>Summarized statement of cash flows</b>	
Operating	1,742,989
Investing	(33,515)
Financing	(659,691)
<b>Net increase in cash and cash equivalents</b>	<b>1,049,783</b>
	<b>31.12.2016</b>
	<b>Yuchai</b>
	<b>RMB 000</b>
<b>Summarized statement of financial position</b>	
Current assets	12,448,174
Non-current assets, excluding goodwill	4,876,773
Goodwill	212,636
Current liabilities	(7,957,306)
Non-current liabilities	(461,712)
Net assets	9,118,565
Total equity	9,118,565
Attributable to NCI	2,253,207
<b>Summarized statement of comprehensive income</b>	
Revenue	13,598,487

Profit for the year, representing total comprehensive income for the year	726,379
Attributable to NCI	210,013
<b>Summarized statement of cash flows</b>	
Operating	2,329,367
Investing	(293,477)
Financing	(1,697,173)
<b>Net increase in cash and cash equivalents</b>	<b>338,717</b>

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***4. Investments in subsidiaries (cont d)**

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

**Significant restrictions**

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

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



**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**4. Investments in subsidiaries (cont d)****Disposal of a subsidiary in 2015**

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

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

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

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

- (i) In July 2015, Yuchai's subsidiary company, YMMC acquired 40.00% of equity interest in Yunnan Yuchai Machinery Industry Company Limited ( YMMC Yunnan ) by way of offsetting trade receivables from the third party of RMB 18.3 million. As a result, YMMC Yunnan became wholly owned subsidiary of YMMC.

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- (ii) In October 2015, Yuchai acquired 2.86% of equity interest in Guangxi Yulin Yuchai Accessories Manufacturing Company Limited which was renamed to Guangxi Yuchai Equipment Mould Company Limited ( YEMC ) in November 2017, from State Holding Company with a purchase consideration of RMB 4.2 million. As a result, YEMC became wholly owned subsidiary of Yuchai.

### **Acquisition of additional interest in a joint venture in 2016**

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

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

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

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



**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**4. Investments in subsidiaries (cont d)****Acquisition of ownership in subsidiaries, without loss of control in 2016**

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

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

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

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

**Disposal of subsidiaries in 2017**

On November 22, 2017, HLGE disposed its entire shareholding in its wholly-owned subsidiary, LKN Investment International Pte. Ltd ( LKNII ) together with LKNII's wholly-owned subsidiary, Shanghai Hutai Real Estate Development Co., Ltd to a third party for a cash consideration of RMB395.0 million (US\$62.4 million).

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

	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>US\$ 000</b>
Property, plant and equipment (Note 11)	104,844	16,565
Trade receivables and other receivables	3,257	514
Cash and bank balances	9,153	1,446
	117,254	18,525

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Trade and other payables	(3,737)	(590)
Provision for taxation	(44)	(7)
Deferred taxation	(588)	(93)
Carrying value of net assets	112,885	17,835
Gain on disposal:		
Total consideration	395,000	62,407
Less: Cost of disposal	(47,532)	(7,510)
Total consideration less cost of disposal	347,468	54,897
Net assets derecognized	(112,885)	(17,835)
Realization of foreign translation reserves upon disposal	(18,468)	(2,917)
Gain on disposal of the subsidiaries (Note 8.2(b))	216,115	34,145
Total consideration less cost of disposal	347,468	54,897
Add: Transaction cost unpaid	33,287	5,260
Less: Retention sum receivables	(30,000)	(4,740)
Cash and bank balances of the subsidiaries	(9,153)	(1,446)
Net cash inflow on disposal of the subsidiaries	341,602	53,971

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***5. Investment in associates**

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

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

Details of the associates are as follows:

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

Note:

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



**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***6. Investment in joint ventures**

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

Note:

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

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***6. Investment in joint ventures (cont d)**

The Group has interests in the following joint ventures:

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

Note:

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

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

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

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

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***6. Investment in joint ventures (cont d)**

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

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



**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***6. Investment in joint ventures (cont d)**

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

	<b>2016 Cophorne</b>		
	<b>Y &amp; C RMB 000</b>	<b>Qingdao* RMB 000</b>	<b>Total RMB 000</b>
Revenue	553,878	3,674	557,552
Depreciation and amortization	(22,087)	(2,797)	(24,884)
Interest expense	(14,012)	(1,337)	(15,349)
Profit/(loss) for the year, representing total comprehensive loss for the year	4,531	(6,664)	(2,133)
Proportion of the Group's ownership	45%	60%	

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Group's share of profit/(loss)	2,039	(3,998)	
Depreciation arising from fair value adjustment during purchase price allocation		(467)	
Group's share of profit/(loss) of significant joint ventures	2,039	(4,465)	(2,426)
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			(1,642)
<b>Group's share of loss for the year, representing the Group's share of total comprehensive loss for the year</b>			<b>(4,068)</b>

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***6. Investment in joint ventures (cont d)**

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

	<b>31.12.2017</b>			
	<b>Y &amp; C</b>	<b>MTU</b>	<b>Total</b>	<b>Total</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Revenue	1,331,823		1,331,823	210,419
Depreciation and amortization	(20,831)	(227)	(21,058)	(3,327)
Interest expense	(28,663)	(343)	(29,006)	(4,583)
Profit/(loss) for the year, representing total comprehensive income for the year	55,982	(16,973)	39,009	6,163
Proportion of the Group's ownership	45%	50%		

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Group's share of profit	25,192	(8,487)		
Unrealized profit on transactions with joint venture	(7,437)			
Group's share of profit of significant joint ventures	17,755	(8,487)	9,268	1,464
Group's share of loss of other joint ventures, representing the Group's share of total comprehensive loss of other joint ventures			814	129
<b>Group's share of profit for the year, representing the Group's share of total comprehensive income for the year</b>			10,082	1,593

Note:

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

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

**6. Investment in joint ventures (cont d)**

Note: (cont d)

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

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

**Significant restrictions**

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

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

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

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

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

**7. Revenue**

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

**8.1 Depreciation and amortization, shipping and handling expenses**

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

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

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***8.2 (a) Other operating income**

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Interest income	41,314	56,983	105,421	16,656
Dividend income from held for trading investment		943	2,532	400
Gain on disposal of subsidiaries (Note 4)			216,115	34,145
Gain on disposal of joint venture (Note 22)			107,976	17,059
Gain on disposal of associate			199	31
Gain on disposal of property, plant and equipment			11,668	1,843
Gain on disposal of intangible assets			115,235	18,206
Gain on disposal of prepaid operating leases	2,511			
Gain on liquidation of joint venture	348			
Government grants	31,205	41,515	34,337	5,425
Fair value gain on held for trading investment			12,768	2,017
Fair value gain on foreign exchange forward contract (Note 19)	15,506			
Write-back of trade and other payables	9		29	5
Write-back of allowance for anticipated losses on development properties	2,976			
Bad debt recovered	4,257			
Foreign exchange gain, net			30,943	4,889
Others	8,805	18,513	10,129	1,600
	106,931	117,954	647,352	102,276

**8.2 (b) Other operating expenses**

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





**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***8.3 Finance costs**

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

**8.4 Staff costs**

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

**9. Income tax expense**

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

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Current income tax</b>				
- Current year	104,584	104,149	197,264	31,167
- (Over)/under provision in respect of prior years	(47)	7,175	(2,867)	(453)
<b>Deferred tax</b>				
- Movement in temporary differences	72,281	48,946	25,770	4,071

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Consolidated income tax expense reported in the statement of profit or loss	176,818	160,270	220,167	34,785
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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***9. Income tax expense (cont d)**

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

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

**Deferred tax**

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2016	31.12.2017	31.12.2017	31.12.2015	31.12.2016	31.12.2017	31.12.2017
	RMB 000	RMB 000	US\$ 000	RMB 000	RMB 000	RMB 000	US\$ 000
<b>Deferred tax liabilities</b>							
Accelerated tax depreciation	(10,521)	(15,122)	(2,389)	(10,852)	373	(4,601)	(727)
Unremitted earnings from overseas source income	(437)				(25)		
Interest receivable	(1,453)	(774)	(122)		(1,471)	679	107
Derivatives not designated as hedges-foreign exchange forward contract				(2,326)	2,326		
PRC withholding tax on dividend income <sup>(i)</sup>	(103,347)	(100,572)	(15,890)	(12,549)	(16,628)	(29,031)	(4,587)
	(115,758)	(116,468)	(18,401)	(25,727)	(15,425)	(32,953)	(5,207)
<b>Deferred tax assets</b>							
	2,876	12,319	1,946	409	(9,005)	9,443	1,492

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Impairment of property, plant and equipment							
Write-down of inventories	21,209	17,493	2,764	(3,867)	(4,421)	(3,716)	(587)
Allowance for doubtful account receivables	9,340	7,376	1,165	(3,361)	7,196	(1,964)	(310)
Accruals	185,952	204,730	32,346	17,253	(46,350)	18,778	2,967
Deferred income	70,931	51,679	8,165	(44,232)	10,045	(19,252)	(3,042)
Write down of intangible asset				(15,000)			
Others	17,899	21,793	3,443	2,244	9,014	3,894	616
	308,207	315,390	49,829	(46,554)	(33,521)	7,183	1,136
				(72,281)	(48,946)	(25,770)	(4,071)

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***9. Income tax expense (cont d)****Deferred tax (cont d)**

Note:

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

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

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

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

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

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

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**10. Earnings per share**

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

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

**Basic earnings per share**

The calculation of basic earnings per share is based on:

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

**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:

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

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

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	Freehold land	Leasehold land, buildings and improvements	Construction in progress	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
<b>Cost</b>							
At January 1, 2016	13,301	2,307,160	328,117	4,969,820	181,448	114,681	7,914,527
Additions		23,621	232,474	8,514	17,757	2,627	284,993
Acquisition as subsidiary					29		29
Disposals		(16,492)		(114,861)	(6,966)	(3,263)	(141,582)
Transfers		37,001	(224,440)	186,620	142	296	(381)
Write-off					(5)		(5)
Translation difference	429	356		(337)	56	84	588
At December 31, 2016 and January 1, 2017	13,730	2,351,646	336,151	5,049,756	192,461	114,425	8,058,169
Additions		1,109	226,977	7,464	16,763	9,120	261,433
Disposal of subsidiary		(107,632)		(35,490)	(12,473)	(255)	(155,850)
Disposals		(3,310)		(10,064)	(3,718)	(5,481)	(22,573)
Transfers		81,486	(280,358)	198,872			
Write-off		(2,385)	(1,674)	(53,792)	(15,307)	(599)	(73,757)
Translation difference	263	1,954		88	2,228	(74)	4,459
At December 31, 2017	13,993	2,322,868	281,096	5,156,834	179,954	117,136	8,071,881
<b>Accumulated depreciation and impairment</b>							
At January 1, 2016	460	572,857		2,831,362	110,175	70,129	3,584,983
Charge for the year		78,504		359,046	21,248	6,295	465,093
Disposals		(8,720)		(104,346)	(6,514)	(2,277)	(121,857)
Transfers		(24)					(24)
Impairment loss				3,297			3,297
Translation difference	7	(331)		(160)	(78)	54	(508)
At December 31, 2016 and January 1, 2017	467	642,286		3,089,199	124,831	74,201	3,930,984
Charge for the year		78,347		325,979	21,202	6,039	431,567
Disposal of subsidiary		(26,031)		(15,040)	(9,695)	(240)	(51,006)
Disposals		(1,879)		(10,191)	(1,798)	(4,733)	(18,601)
Write-off		(1,377)		(51,087)	(15,012)	(599)	(68,075)
Impairment loss			1,055	19,790			20,845
Translation difference	17	104		62	1,998	(32)	2,149



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At December 31, 2017	484	691,450	1,055	3,358,712	121,526	74,636	4,247,863
<b>Net book value</b>							
At December 31, 2016	13,263	1,709,360	336,151	1,960,557	67,630	40,224	4,127,185
At December 31, 2017	13,509	1,631,418	280,041	1,798,122	58,428	42,500	3,824,018
US\$ 000	2,134	257,752	44,245	284,091	9,231	6,715	604,168

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

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

### ***Finance leases***

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

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

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

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

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
2017	Comparable price:	

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	<p>Market comparison and cost method</p>	<ul style="list-style-type: none"> <li>- Land: RMB 24 to RMB 34 (US\$4 to US\$5) per square foot</li> <li>- Retail: RMB 352 to RMB 859 (US\$56 to US\$139) per square foot</li> </ul>	<p>The estimated fair value increases with higher comparable price</p>
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<p>2016</p>	<p>Market comparison and cost method</p>	<p>Comparable price:</p> <ul style="list-style-type: none"> <li>- Land: RMB 24 to RMB 34 per square foot</li> <li>- Retail: RMB 337 to RMB 847 per square foot</li> </ul>	<p>The estimated fair value increases with higher comparable price</p>
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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**13. Prepaid operating leases**

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

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Current	12,546	12,546	1,982
Non-current	379,636	367,270	58,026
<b>Total</b>	<b>392,182</b>	<b>379,816</b>	<b>60,008</b>
	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Cost</b>			
At January 1 and December 31	529,577	529,577	83,669
<b>Accumulated amortization</b>			
At January 1	124,576	137,395	21,707
Charge for the year	12,819	12,366	1,954
At December 31	137,395	149,761	23,661
<b>Net carrying amount</b>	<b>392,182</b>	<b>379,816</b>	<b>60,008</b>

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

**14. Goodwill**

	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Cost</b>		
At January 1, 2016, December 31, 2016, January 1, 2017 and December 31, 2017	218,311	34,492
<b>Accumulated impairment</b>		
At January 1, 2016, December 31, 2017, January 1, 2017 and December 31, 2017	5,675	897

**Net carrying amount**

At December 31, 2016 and December 31, 2017	212,636	33,595
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Goodwill represents the excess of costs over fair value of net assets of businesses acquired.

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

Yuchai

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***14. Goodwill (cont d)****Carrying amount of goodwill allocated to the cash-generating unit:**

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

**Yuchai unit**

The Group performs its impairment test annually. The recoverable amount of the unit was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period. The business of Yuchai is stable since the Group has control in 1994 and the business model of Yuchai is unlikely to change in the foreseeable future. The pre-tax discount rate applied to the cash flow projections was 12.84% (2016: 11.73%). No impairment was identified for this unit.

**Key assumptions used in value in use calculations**

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

Profit from operation

Discount rate

Growth rate used to extrapolate cash flows beyond the forecast period

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

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

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

**Sensitivity to changes in assumptions**

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

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

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

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***15. Intangible assets**

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

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

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

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

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

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

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



statement of profit or loss under the line item selling, distribution and administrative costs .

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***16. Other financial liabilities****(a) Other liabilities**

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Derivative not designated as hedges – foreign exchange forward contract	140		
Finance lease liabilities (Note 31)	108	79	12
<b>Total</b>	<b>248</b>	<b>79</b>	<b>12</b>

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Current	178	33	5
Non-current	70	46	7
<b>Total</b>	<b>248</b>	<b>79</b>	<b>12</b>

**Foreign exchange forward contract**

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

**(b) Interest-bearing loans and borrowings**

	<b>Effective</b>		<b>31.12.2016</b>
	<b>interest rate</b>	<b>Maturity</b>	<b>RMB 000</b>
	<b>%</b>		
<b>Current</b>			
Renminbi denominated loans	3.94	2017	753,750
USD denominated loans	3.70	2017	104,055
Singapore Dollar denominated loans <sup>(ii)</sup>	1.81	2017	33,616
Malaysian Ringgit denominated loans	5.90	2017	2,715

894,136

**Non-current**

Malaysian Ringgit denominated loans	5.90	2020	16,270
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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***16. Other financial liabilities (cont d)****(b) Interest-bearing loans and borrowings (cont d)**

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

Note:

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

(ii) The loans comprise:

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

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***16. Other financial liabilities (cont d)****(b) Interest-bearing loans and borrowings (cont d)****S\$30.0 million credit facility with MUFG Bank Ltd, Singapore Brach (formally known as Bank of Tokyo Mitsubishi UFJ, Ltd., Singapore Branch) ( MUFG )**

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

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

On March 31, 2017, the Company entered into an uncommitted and unsecured multi-currency revolving credit facility agreement with SMBC for an aggregate value of US\$30.0 million to refinance the US\$30.0 million facility that matured on March 18, 2017. The facility is available for three years from the date of the facility agreement and will be utilized by the Company to finance its long-term general working capital requirements. The terms of the facility require, among other things, that HLA retains ownership of the special share and that the Company remains a principal subsidiary (as defined in the facility agreement) of HLA. The terms of the facility also include certain financial covenants with respect to the Company's consolidated tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not less than US\$200 million and the ratio of the Company's consolidated total net debt (as defined in the agreement) to consolidated tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements.

**17. Deferred grants**

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

337,889

353,647

55,874

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***18. Inventories**

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Raw materials	904,737	1,188,396	187,758
Work in progress	26,807	34,924	5,518
Finished goods	732,335	1,349,425	213,199
<b>Total inventories at the lower of cost and net realizable value</b>	<b>1,663,879</b>	<b>2,572,745</b>	<b>406,475</b>

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Inventories recognized as an expense in cost of sales	9,566,699	9,308,265	11,021,960	1,741,391
Inclusive of the following charge/(credit):				
- Inventories written down	59,339	48,202	17,492	2,764
- Reversal of write-down of inventories	(24,079)	(53,373)	(37,393)	(5,908)

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

**19. Other assets**

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



- (i) The quoted equity securities are listed on the Singapore Exchange.
  
- (ii) The deferred expenditure relate to the legal fees for an option to purchase for sale of lands entered with a buyer in 2016 and will be transferred to the profit or loss upon completion of the sale.

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**20. Trade and bill receivables**

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

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

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

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

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

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

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

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

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

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***21. Other receivables and prepayments**

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

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

Note:

- <sup>(i)</sup> Retention sums relate to money deposits in an escrow account pending finalization of tax payable for the disposal of LKNII.

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Other receivables (non-current) <sup>(i)</sup> (Note 36)	1,588	620	98

- <sup>(i)</sup> Non-current non-trade receivables due from joint ventures and associate are unsecured, non-interest bearing and are to be settled in cash. These amounts are not expected to be repaid within the next 12 months.

**22. Asset classified as held for sale****Sales of 60% of the issued ordinary shares in the capital of Copthorne Qingdao**

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

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

On October 19, 2017, the Group completed the disposal of its investment in Copthorne Qingdao and recognized gain on disposal of RMB107,976 (US\$17,059) in the Group's profit or loss for the year ended December 31, 2017.

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***22. Asset classified as held for sale (cont d)****Sales of 60% of the issued ordinary shares in the capital of Copthorne Qingdao (cont d)**

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

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

**23. Cash and cash equivalents****Short-term bank deposits****Restricted cash****Long-term bank deposits**

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Non-current</b>			
Long-term bank deposits <sup>(i)</sup>		70,000	11,060
<b>Current</b>			
Cash and cash equivalents	3,653,914	5,390,324	851,633
Short-term bank deposits <sup>(ii)</sup>	363,043	514,074	81,220

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Restricted cash	36,000	54,809	8,659
	4,052,957	5,959,207	941,512
<b>Cash and bank balances</b>	4,052,957	6,029,207	952,572

Note:

- (i) In 2017, YMMC placed two-year time deposits of RMB 70,000 (US\$11,060) (2016: RMB Nil) at annual interest rate range from 2.94% to 3.15% with banks. These long-term deposits are not considered as cash equivalents.
- (ii) Short-term bank deposits relate to bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity. The interest rate of these bank deposits as of December 31, 2017 for the Group ranged from 1.01% to 1.97% (2016: 0.83% to 1.76%). These short-term bank deposits are not considered as cash equivalents.

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

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***23. Cash and cash equivalents****Short-term bank deposits****Restricted cash****Long-term bank deposits (continued)**

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

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

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

**24. Issued capital and Preference shares**

	<b>31.12.2016</b>	<b>31.12.2017</b>
	<b>thousands</b>	<b>thousands</b>
<b>Issued capital</b>		
<i>Authorized shares</i>		
Ordinary share of par value US\$0.10 each	100,000	100,000
	<b>Number of</b>	
	<b>shares</b>	<b>RMB 000</b>
<i>Ordinary shares issued and fully paid</i>		
At January 1, 2016	39,298,340	1,955,720
Issued of shares as dividend payment (Note 25)	1,413,760	103,356
At December 31, 2016 and January 1, 2017	40,712,100	2,059,076



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Issued of shares as dividend payment (Note 25)	99,790	12,897	
Issued of shares upon exercised of share options (Note 27)	46,400	9,165	
At December 31, 2017	40,858,290	2,081,138	
US\$ 000			328,805
	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Special share issued and fully paid</b>			
One special share issued and fully paid at US\$0.10 per share	*	*	*
Non-redeemable convertible cumulative preference shares	21	21	3

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

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

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

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**China Yuchai International Limited**

**Notes to the Consolidated Financial Statements**

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

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

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

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

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

**Preference shares**

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

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

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

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

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

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

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

**25. Dividends declared and paid**

**31.12.2016      31.12.2017      31.12.2017**

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

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***26. Reserves**

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

Note:

- (i) In accordance with the relevant regulations in the PRC, Yuchai and its subsidiaries are required to provide certain statutory reserves which are designated for specific purposes based on the net income reported in the PRC General Accepted Accounting Principles financial statements. The reserves are not distributable in the form of cash dividends.
- (ii) In accordance with the relevant regulations in the PRC, a 10% appropriation to the statutory general reserve based on the net income reported in the PRC financial statements is required until the balance reaches 50% of the authorized share capital of Yuchai and its subsidiaries. Statutory general reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them, provided that the reserve balance after such issue is not less than 25% of the authorized share capital.
- (iii) General surplus reserve is appropriated in accordance with Yuchai's Articles and resolution of the board of directors. General surplus reserve may be used to offset accumulated losses or increase the registered capital.

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

Total	(11,560)	(74,722)	(11,805)
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(i) Foreign currency translation reserve

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

(ii) Performance shares reserve

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

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**27. Share-based payment**

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

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

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

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

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

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

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

*Fair value of share options and assumptions*

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

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

**27. Share-based payment (cont d)***Fair value of share options and assumptions (cont d)*

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

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

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

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

**28. Trade and other payables**

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

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



RMB 133,708) respectively.

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

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

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

- (ii) This relates to progress payments received for sale of lands and will be credited to profit and loss upon completion of the sale. Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 60-day terms.

Other payables (current) are non-interest bearing and have an average term of three months.

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

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

**30. Related party disclosures***The ultimate parent*

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

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

*Entity with significant influence over the Group*

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

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
<b>Sales</b>				
- Materials/engines to State Holding Company, its subsidiaries and affiliates	516,679	447,509	455,061	71,896
- Hospitality and restaurant service charged to State Holding Company, its subsidiaries and affiliates	3,247	4,761	4,454	704
- Diesel engines and materials to associates and joint ventures	156,444	219,724	412,591	65,186
<b>Purchase</b>				
- Purchase of materials and supplies from subsidiaries and affiliates of State Holding Company	1,181,852	1,028,358	1,221,421	192,976
- Materials and supplies/engines from associates and joint ventures	90,354	308,610	914,211	144,439
<b>Others</b>				
- Delivery expense charged by subsidiaries of State Holding Company	164,690	143,077	192,399	30,398
- Storage, distribution and handling expenses charged by a subsidiary of State Holding Company	30,462	50,181	18,007	2,845
- Property management service charged by an associate/ a subsidiary of SHC <sup>(ii)</sup>	23,359	20,976	22,212	3,509
- Leasing expenses charged by State Holding Company	12,951	4,715	8,676	1,371
- Consultancy fees charged by State Holding Company		10,026	12,264	1,938
- General and administrative expenses charged by State Holding Company	3,141	4,283	7,951	1,256
- General and administrative expenses charged by affiliates of HLA	6,271	6,887	6,913	1,092
- Charged by joint ventures for service provided		2,121	2,543	402
- Charged to subsidiaries of State Holding Company for service provided		8,873	21,274	3,361
- Charged to a joint venture for service provided			14,241	2,250
- Rental income charged to State Holding Company and its subsidiaries	619	5,454	4,483	708
- Purchases of vehicles/machineries from State Holding Company and its subsidiary	1,963		52,443	8,286
- Purchases of additional shareholding in a subsidiary from State Holding Company <sup>(i)</sup>	4,170		1,335	211
- Disposal of shareholding in an associate to State Holding Company <sup>(ii)</sup>			1,833	290
- Sales of an intangible asset to a joint venture			220,000	34,758

**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements**

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

**30. Related party disclosures (cont d)**

Note:

(i) In October 2015, Yuchai acquired 2.86% of equity interest in YEMC from State Holding Company with a purchase consideration of RMB 4.2 million.  
In June 2017, GYAMC acquired 25% of equity interest in Crankshaft from State Holding Company with a purchase consideration of RMB 1.3 million (US\$0.2 million).

(ii) In August 2017, YEMC disposed its 30% equity interest in Property Management to State Holding Company for a consideration of RMB 1.9 million (US\$0.3 million).  
In addition to the above, Yuchai also entered into transactions with other PRC Government owned enterprises. Management considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms. Balances with other PRC entities are excluded from this caption.

***Terms and conditions of transactions with related parties***

The transactions with related parties are made at terms agreed between the parties. Outstanding balances at the year-end are unsecured and interest free.

***Compensation of key management personnel of the Group***

	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Short-term employee benefits	27,331	31,975	40,831	6,451
Contribution to defined contribution plans	305	415	385	61
Cost of share-based payment	8,477	4,387	1,294	204
	36,113	36,777	42,510	6,716

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

**31. Commitments and contingencies*****Operating lease commitments - Group as lessee***

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

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

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>Within one year</b>			
- With related parties	800	5,578	881
- With third parties	11,338	14,058	2,221
<b>After one year but not more than five years</b>			
- With related parties	1,399	1,724	272
- With third parties	12,537	14,003	2,212
<b>More than five years</b>			
- With third parties	114		
	<b>26,188</b>	<b>35,363</b>	<b>5,586</b>

The minimum lease payments recognized as an expense for the financial year ended December 31, 2015, 2016 and 2017 amounted to RMB 60,201, RMB 54,617 and RMB 54,671 (US\$8,638).

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

**31. Commitments and contingencies (cont d)*****Operating lease commitments - Group as lessor***

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

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

	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
Within one year			
- With related parties	102	184	29
- With third parties	1,624	1,438	227
After one year but not more than five years			
- With related parties		268	42
- With third parties	1,855	2,491	394
More than five years			
- With third parties	268	1,310	207
	3,849	5,691	899

***Finance lease commitments***

The Group has finance lease for office equipment and motor vehicles. The lease has term of renewal but no purchase options and escalation clause. Renewal is at the option of the Group.

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

	31.12.2016		31.12.2017			
	Minimum lease payments RMB 000	Present value of payments RMB 000	Minimum lease payments RMB 000	US\$ 000	Present value of payments RMB 000	US\$ 000
Not later than one year	43	38	33	5	33	5
Later than one year but not later than five years	70	70	46	7	46	7
Total minimum lease payments	113	108	79	12	79	12

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Less: Amount representing finance charges	(5)	*	*	*	*	*
Present value of minimum lease payments	108	108	79	12	79	12

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

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#### **Notes to the Consolidated Financial Statements**

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

#### **31. Commitments and contingencies (cont d)**

##### ***Capital commitments***

As of December 31, 2016 and 2017, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid amounting to RMB 427,089 and RMB 409,487 (US\$64,696) respectively. The Group's share of joint venture's capital commitment is disclosed in Note 6.

##### ***Investment commitments***

As of December 31, 2016 and 2017, the Group has commitment of RMB 75,000 and RMB Nil (US\$ Nil) relating to the Group's interest in joint venture, respectively.

##### ***Letter of credits***

As of December 31, 2016 and 2017, Yuchai had issued irrevocable letter of credits of RMB 29,729 and RMB 1,905 (US\$301), respectively.

##### ***Product liability***

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

##### ***Environmental liability***

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

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



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

**32. Segment information**

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

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

HLGE is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia. HLGE is listed on the Main Board of the Singapore Exchange.

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

Year ended	<b>Consolidated</b>				
December 31, 2015	<b>Yuchai</b>	<b>HLGE</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>financial</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>statements</b>
					<b>RMB 000</b>
<b>Revenue</b>					
Total external revenue	13,671,931	61,506			13,733,437
<b>Results</b>					
Interest income	35,557	1,415	10,003	(5,661)	41,314
Interest expense	(110,618)	(7,595)	(435)	5,661	(112,987)
Impairment of property, plant and equipment	(2,873)				(2,873)
Impairment of technology development cost	(26,700)				(26,700)
Staff severance cost	(8,385)				(8,385)
Depreciation and amortization	(458,759)	(10,458)	(218)		(469,435)
Share of (loss)/profit of associates and joint ventures, net of tax	(10,230)	7,539			(2,691)
Income tax expense	(161,731)	(2,491)	(12,596) <sup>(1)</sup>		(176,818)
<b>Segment profit after income tax</b>	<b>583,115</b>	<b>6,473</b>	<b>(80,268)</b>		<b>509,320</b>

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Year ended					Consolidated
December 31, 2016	Yuchai RMB 000	HLGE RMB 000	Corporate RMB 000	Eliminations RMB 000	financial statements RMB 000
<b>Revenue</b>					
Total external revenue	13,598,487	66,353			13,664,840
<b>Results</b>					
Interest income	51,235	1,919	10,080	(6,251)	56,983
Interest expense	(73,028)	(7,706)	(648)	6,251	(75,131)
Impairment of property, plant and equipment	(3,297)				(3,297)
Staff severance costs	(12,864)				(12,864)
Depreciation and amortization	(467,177)	(10,744)	(239)		(478,160)
Share of profit/(loss) of associates and joint ventures, net of tax	112	(3,724)			(3,612)
Income tax expense	(141,272)	(2,281)	(16,717) <sup>(1)</sup>		(160,270)
<b>Segment profit after income tax</b>	<b>765,039</b>	<b>(4,548)</b>	<b>(36,883)</b>		<b>723,608</b>
<b>Total assets</b>	<b>17,537,583</b>	<b>449,994</b>	<b>2,111,248</b>	<b>(1,502,319)</b>	<b>18,596,506</b>
<b>Total liabilities</b>	<b>(8,419,018)</b>	<b>(369,124)</b>	<b>(151,472)</b>	<b>328,920</b>	<b>(8,610,694)</b>
<b>Other disclosures</b>					
Investment in joint ventures	173,781	2,570			176,351
Capital expenditure	282,284	2,623	86		284,993

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Year ended					Consolidated	Consolidated
	Yuchai	HLGE	Corporate	Eliminations	financial	financial
December 31, 2017	RMB 000	RMB 000	RMB 000	RMB 000	statements	statements
					RMB 000	US\$ 000
<b>Revenue</b>						
Total external revenue	16,165,245	57,197			16,222,442	2,563,030
<b>Results</b>						
Interest income	94,760	1,803	11,833	(2,975)	105,421	16,656
Interest expense	(94,794)	(3,983)	(270)	2,975	(96,072)	(15,179)
Gain on disposal of intangible assets	115,235				115,235	18,206
Gain on disposal of subsidiaries		216,115			216,115	34,145
Gain on disposal of joint venture		107,976			107,976	17,059
Impairment of property, plant and equipment	(20,845)				(20,845)	(3,293)
Impairment of technology development cost	(40,000)				(40,000)	(6,320)
Staff severance cost	(107,732)				(107,732)	(17,021)
Depreciation and amortization	(433,921)	(9,990)	(270)		(444,181)	(70,177)
Share of profit of associates and joint venture	9,255	799			10,054	1,589
Income tax expense	(190,573)	(461)	(29,133) <sup>(1)</sup>		(220,167)	(34,785)
<b>Segment profit after tax</b>	<b>1,089,233</b>	<b>322,481</b>	<b>(6,644)</b>		<b>1,405,070</b>	<b>221,991</b>
<b>Total assets</b>	<b>19,623,882</b>	<b>451,096</b>	<b>2,444,012</b>	<b>(1,503,931)</b>	<b>21,015,059</b>	<b>3,320,229</b>
<b>Total liabilities</b>	<b>(9,840,265)</b>	<b>(66,920)</b>	<b>(128,591)<sup>(2)</sup></b>	<b>(7)</b>	<b>(10,035,783)</b>	<b>(1,585,582)</b>
<b>Other disclosures</b>						
Investment in joint ventures	193,476	2,626			196,102	30,983
Capital expenditure	259,068	975	1,390		261,433	41,305

Note:

<sup>(1)</sup> This relates mainly to the withholding tax provisions for dividends from Yuchai.<sup>(2)</sup>

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Included here are mainly the cumulative withholding tax provision for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai.

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

**32. Segment information (cont d)****Geographic information**

Revenue from external customers:

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
People's Republic of China	13,630,979	13,508,721	16,116,356	2,546,269
Other countries	102,458	156,119	106,086	16,761
	13,733,437	13,664,840	16,222,442	2,563,030

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

Revenue from one customer group amounted to RMB 4,839,617 (US\$764,625) (2016: RMB 3,580,856; 2015: RMB 2,900,332), arising from sales by Yuchai segment.

**Non-current assets**

	31.12.2016 RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
People's Republic of China	4,893,338	4,524,988	714,916
Other countries	95,430	94,779	14,974
	4,988,768	4,619,767	729,890

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

**33. Financial risk management objectives and policies**

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

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

*Market risk*

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2016 and 2017.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at December 31, 2017.

The analyses exclude the impact of movements in market variables on provisions and on the non-financial assets and liabilities of foreign operations.

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### **China Yuchai International Limited**

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#### **33. 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 16(b). As certain interest rates are based on interbank offer rates, the Group is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Group, any variation in the interest rates may have a material impact on the results of the Group.

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

##### ***Interest rate sensitivity***

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

If interest rate had been 50 (2016: 50) basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2017 of the Group would increase/decrease by RMB 22,015 (US\$3,478) (2016: increase/decrease by RMB 15,712).

##### ***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.

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

	Singapore		31.12.2016 US		
	Dollar RMB 000	Euro RMB 000	Dollar RMB 000	Renminbi RMB 000	Others RMB 000
Held for trading investment	12,181				
Trade and other receivables	957	9,232	15,032	31,679	982
Cash and bank balances	117,763	3,841	7,247		
Financial liabilities	(33,686)		(104,055)		
Trade and other payables	(12,991)	(10,763)	(5,873)	(1,410)	
Net assets/(liabilities)	84,224	2,310	(87,649)	30,269	982
	Singapore		31.12.2017 US		
	Dollar RMB 000	Euro RMB 000	Dollar RMB 000	Renminbi RMB 000	Others RMB 000
Held for trading investment	24,714				
Trade and other receivables	725		34,727	469	
Cash and bank balances	418,875	1,486	16,068		498
Financial liabilities	(14,715)				
Trade and other payables	(13,748)	(10,857)	(5,574)	(35,505)	(24)
Net assets/(liabilities)	415,851	(9,371)	45,221	(35,036)	474
US\$ 000	65,701	(1,481)	7,145	(5,535)	75

*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.

	31.12.2016	Profit before tax	
	RMB 000	31.12.2017 RMB 000	31.12.2017 US\$ 000
Singapore Dollar	8,422	41,585	6,570
Euro	231	(937)	(148)
US Dollar	(8,765)	4,522	714
Renminbi	3,027	(3,504)	(554)

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***33. Financial risk management objectives and policies (cont d)*****Equity price risk***

The Group has investment in TCL which is quoted.

***Equity price risk sensitivity***

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

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Statement of profit or loss	1,218	2,471	390

***Credit risk***

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

***Trade receivables***

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

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

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

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

At December 31, 2017, the Group had top 20 customers (2016: top 20 customers) that owed the Group more than RMB 57,220 (US\$9,040) (2016: RMB 151,033) and accounted for approximately 22.4% (2016: 51.1%) of trade receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 44 customers (2016: 38 customers) with balances greater than RMB 1,000 (US\$158) accounting for over 73.8% (2016: 79.6%) of total trade receivable (excluding bills receivables). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 20 and Note 21. The Group's share of trade

receivables of a joint venture which was used as collateral as security is disclosed in Note 6.

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

***Liquidity risk***

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

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

	One year or less RMB '000	Two to five years RMB '000	More than five years RMB '000	Total RMB '000	
<b>As at December 31, 2016</b>					
<b>Financial assets</b>					
Trade and bills receivables	7,111,890			7,111,890	
Other receivables, excluding tax recoverable	246,687	1,588		248,275	
Cash and bank balances	4,052,957			4,052,957	
Held for trading investment and derivative not designated as hedges – foreign exchange forward contract	12,181			12,181	
	11,423,715	1,588		11,425,303	
<b>Financial liabilities</b>					
Derivative not designated as hedges – foreign exchange forward contract	140			140	
Interest-bearing loans and borrowings	909,824	18,409		928,233	
Trade and other payables (Note 28)	6,576,468	136,772		6,713,240	
Other liabilities	43	70		113	
	7,486,475	155,251		7,641,726	
	One year or less RMB '000	Two to five years RMB '000	More than five years RMB '000	Total RMB '000	Total US\$ '000
<b>As at December 31, 2017</b>					
<b>Financial assets</b>					
Trade and bills receivables	7,075,319			7,075,319	1,117,850
Other receivables, excluding tax recoverable	132,675	620		133,295	21,060
Cash and bank balances	6,029,207			6,029,207	952,572
Held for trading investment	24,714			24,714	3,905
	13,261,915	620		13,262,535	2,095,387

**Financial liabilities**

Interest-bearing loans and borrowings	1,624,539	27,874	1,652,413	261,069
Trade and other payables (Note 28)	7,328,762	156,347	7,485,109	1,182,594
Other liabilities	33	46	79	12
	8,953,334	184,267	9,137,601	1,443,675

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**34. Capital management**

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

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

	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2017</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
Interest-bearing loans and borrowings (current and non-current) (Note 16(b))	910,406	1,626,341	256,951
Trade and other payables (current and non-current) (Note 28)	6,981,815	7,624,496	1,204,616
Less: Cash and bank balances (Note 23)	(4,052,957)	(6,029,207)	(952,572)
Net debts	3,839,264	3,221,630	508,995
Equity attributable to equity holders of the parent	7,683,834	8,347,562	1,318,855
Total capital and net debts	11,523,098	11,569,192	1,827,850

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2017.

As disclosed in Note 26, certain subsidiaries of the Group are required by the relevant authorities in the PRC to contribute and maintain a non-distributable statutory reserve fund whose utilization is subject to approval by the relevant authorities in the PRC. This externally imposed capital requirement has been complied with by the subsidiaries of the Group for the financial years ended December 31, 2016 and 2017.

**35. Fair value measurement****Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2016:**

	Fair value measurement using		
	Quoted	Significant	Significant
	prices	observable	unobservable
	in	inputs	inputs
Date of	active		
valuation			

		<b>Total</b>	<b>markets</b>		
		<b>RMB 000</b>	<b>(Level</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
			<b>1)</b>	<b>RMB 000</b>	<b>RMB 000</b>
			<b>RMB 000</b>		
<b>Assets measured at fair value</b>					
Held for trading investment:					
Quoted equity shares	TCL (Note 19)				
	December 31,				
	2016	12,181	12,181		
Liabilities measured at fair value					
Derivative financial liabilities:					
Foreign exchange forward contract - USD <sup>(i)</sup>	(Note 16(a))				
	December 31,				
	2016	140		140	

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	Date of valuation	Total RMB 000	Fair value measurement using		
			Quoted prices in active markets (Level 1) RMB 000	Significant observable inputs (Level 2) RMB 000	Significant unobservable inputs (Level 3) RMB 000
<b>Assets measured at fair value</b>					
Held for trading investment:					
Quoted equity shares	TCL (Note 19)				
	December 31,				
	2017	24,714	24,714		

**Note:**

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

There have been no transfers between Level 1 and Level 2 during 2017 and 2016.

**36. Financial assets and financial liabilities**

Note	Financial assets at fair value	Loans and receivables	Other financial liabilities	Total
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		through		at
		profit or		amortized
		loss		cost
		RMB 000	RMB 000	RMB 000
		RMB 000		RMB 000
<b>As at December 31, 2016</b>				
<b>Financial assets</b>				
Held for trading investment	19	12,181		12,181
Trade and bills receivables	20		7,057,256	7,057,256
Other receivables	21		248,275	248,275
Cash and bank balances	23		4,052,957	4,052,957
		12,181	11,358,488	11,370,669
<b>Financial liabilities</b>				
Trade and other payables	28		6,670,490	6,670,490
Loans and borrowings	16(b)		910,406	910,406
Other liabilities	16(a)		248	248
			7,581,144	7,581,144

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**Table of Contents****China Yuchai International Limited****Notes to the Consolidated Financial Statements***(RMB and US\$ amounts expressed in thousands, except per share data)***36. Financial assets and financial liabilities (cont d)**

		<b>Financial</b>		<b>Other</b>		
		<b>assets at</b>		<b>financial</b>		
		<b>fair value</b>		<b>liabilities</b>		
		<b>through</b>	<b>Loans</b>	<b>at</b>		
		<b>profit or</b>	<b>and</b>	<b>amortized</b>		
	<b>Note</b>	<b>loss</b>	<b>receivables</b>	<b>cost</b>	<b>Total</b>	<b>Total</b>
		<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>	<b>US\$ 000</b>
<b>As at December 31, 2017</b>						
<b>Financial assets</b>						
Held for trading investment	19	24,714			24,714	3,905
Trade and bills receivables	20		7,031,544		7,031,544	1,110,934
Other receivables	21		133,295		133,295	21,060
Cash and bank balances	23		6,029,207		6,029,207	952,572
		24,714	13,194,046		13,218,760	2,088,471
<b>Financial liabilities</b>						
Trade and other payables	28			7,433,722	7,433,722	1,174,475
Loans and borrowings	16(b)			1,626,341	1,626,341	256,951
Other liabilities	16(a)			79	79	12
				9,060,142	9,060,142	1,431,438

Held for trading investment relates to the Group's investment in TCL, which is a company listed on the main board of the Singapore Exchange and is involved in the manufacture, assembly and distribution of high-end consumer electronic products and home entertainment products in the PRC. Fair values of the quoted equity shares are determined by reference to published price quotations in an active market.

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

**Table of Contents****China Yuchai International Limited****Consolidated Statement of Changes in Equity***(RMB and US\$ amounts expressed in thousands, except per share data)***36. Financial assets and financial liabilities (cont d)****Changes in liabilities arising from financing activities**

	January 1,		Foreign			December, 31,	
	2016	Cash flows	exchange	Translation	Others	2016	
	RMB 000	RMB 000	movement	reserve	RMB 000	RMB 000	RMB 000
			RMB 000	RMB 000			
<b>As at December 31, 2016</b>							
Loans & bonds							
- current	2,399,195	(1,535,532)	(9,608)		40,081		894,136
- non-current	56,509	(2,015)	(1,242)	3,099	(40,081)		16,270
Obligations under finance leases							
- current	59	(62)	(5)	8	38		38
- non-current	55				15		70
Total liabilities from financing activities	2,455,818	(1,537,609)	(10,855)	3,107	53		910,514

	January 1,		Foreign			December, 31,	
	2017	Cash flows	exchange	Translation	Others	2017	2017
	RMB 000	RMB 000	movement	reserve	RMB 000	RMB 000	US\$ 000
			RMB 000	RMB 000			
<b>As at December 31, 2017</b>							
Loans & bonds							
- current	894,136	705,109	755		1,600,000		252,789
- non-current	16,270	9,376	879	(184)	26,341		4,162
Obligations under finance leases							
- current	38	(38)		9	24	33	5
- non-current	70				(24)	46	7
Total liabilities from financing activities	910,514	714,447	1,634	(175)		1,626,420	256,963

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

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