CHINA YUCHAI INTERNATIONAL LTD
Form 20-F
April 17, 2017
Table of Contents

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, 2016

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)**

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(Address and Telephone Number of Principal Executive Offices)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value US$0.10 per Share	The New York Stock Exchange

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, 2016, 40,712,100 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:

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

Table of Contents

TABLE OF CONTENTS

CHINA YUCHAI INTERNATIONAL LIMITED

	Page
Certain Definitions and Supplemental Information	2
Cautionary Statements with respect to Forward-Looking Statements	2
Part I	
Item 1. Identity of Directors, Senior Management and Advisers	4
Item 2. Offer Statistics and Expected Timetable	4
Item 3. Key Information	4
Item 4. Information on the Company	23
Item 4A. Unresolved Staff Comments	42
Item 5. Operating and Financial Review and Prospects	42
Item 6. Directors, Senior Management and Employees	59
Item 7. Major Shareholders and Related Party Transactions	68
Item 8. Financial Information	71
Item 9. The Offer and Listing	72
Item 10. Additional Information	72
Item 11. Quantitative and Qualitative Disclosures About Market Risk	86
Item 12. Description of Securities Other Than Equity Securities	87
Part II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	87
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	87
Item 15. Controls and Procedures	87
Item 16A. Audit Committee Financial Expert	88
Item 16B. Code of Ethics	88
Item 16C. Principal Accountants Fees and Services	89
Item 16D. Exemptions from the Listing Standards for Audit Committees	89
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	89
Item 16F. Change in Registrant s Certifying Accountant	89
Item 16G. Corporate Governance	89
Item 16H. Mine Safety Disclosure	89
Part III	
Item 17. Financial Statements	90
Item 18. Financial Statements	91
Item 19. Exhibits	92
Signatures	94
Exhibit Index	95
Consolidated Financial Statements	F-1

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 6.8750 = US$1.00, the rate quoted by the People s Bank of China, or PBOC, on February 28, 2017, (ii) from Singapore dollar to US dollar at the rate of S$1.3990 = 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, 2017, and (iii) from Ringgit to US dollar at the rate of RM 4.4380 = 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, 2017. 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 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, 2016, 40,712,100 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 40,016,808 as a result of the payment of certain amounts of dividends in the form of shares at the election of shareholders. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 40,016,808 for 2016. As of February 28, 2017, 40,712,100 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 2017 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;

the effects of a weaker than expected recovery in the global economy subject to substantial downside risks including heightened policy uncertainty especially regarding trade, 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 and weaker than expected growth in China on the overall global economy and our business, operating results and growth rates;

Table of Contents

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 ability of HLGE to continue as a going concern or raise sufficient funds to repay its debt obligations to us;

the ability of HLGE to remain listed;

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.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The selected consolidated statement of financial position data as of December 31, 2015 and 2016, 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, 2014, 2015 and 2016 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, 2012, 2013 and 2014, 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, 2012 and 2013 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, 2012, 2013, 2014, 2015 and 2016 have been prepared in conformity with IFRS.

The selected financial information as of and for the years ended December 31, 2014, 2015 and 2016 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, 2016, 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, 2017, our interest in the outstanding ordinary shares of HLGE and TCL remain 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, 2016. 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, 2016 and February 28, 2017. We consolidate the results of HLGE as a subsidiary. See Note 1.4 to the accompanying consolidated financial statements in Item 18.

4

Table of Contents

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, 2016 and February 28, 2017. We classify our shareholding in TCL as held for trading investment.

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.

	Year ended December 31,					
	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2016 US$[1]
	(in thousands, except per share data)					
Selected Consolidated Statement of Profit or Loss Data:						
Revenue	13,449,489	15,902,355	16,436,142	13,733,437	13,664,840	1,987,613
Gross profit	2,879,884	3,264,904	3,290,990	2,790,572	2,964,185	431,154
Research and development costs	(373,732)	(468,612)	(494,594)	(506,955)	(588,007)	(85,528)
Other operating income, net	132,350	156,352	94,892	19,337	95,355	13,871
Operating profit	1,163,464	1,402,416	1,292,618	805,180	967,173	140,681
Share of results of associates and joint ventures	(36,869)	(79,086)	(29,755)	(2,691)	(3,612)	(526)
Profit before tax	913,576	1,162,119	1,201,385	686,138	883,878	128,564
Income tax expense	(142,238)	(222,147)	(179,639)	(176,818)	(160,270)	(23,313)
Profit for the year	771,338	939,972	1,021,746	509,320	723,608	105,251
Attributable to:						
Equity holders of the parent	567,333	700,423	730,280	341,108	515,737	75,016
Non-controlling interests	204,005	239,549	291,466	168,212	207,871	30,235
Basic and diluted earnings per common share attributable to ordinary equity holders of the parent (RMB/US$ per share)	15.22	18.79	19.36	8.81	12.89	1.87
Profit for the year per share (RMB/US$ per share)	20.70	25.22	27.09	13.16	18.08	2.63
Weighted average number of shares	37,268	37,268	37,720	38,712	40,017	40,017

	As of December 31,					
	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2016 US$[1]
	(in thousands)					
Selected Consolidated Statement of Financial Position Data:						
Working capital [2]	2,906,300	4,333,904	4,925,945	4,366,413	5,272,069	766,847
Property, plant and equipment	4,016,593	4,036,163	4,460,842	4,329,544	4,127,185	600,318
Trade and bills receivables	6,591,736	7,437,948	8,113,094	7,178,513	7,057,256	1,026,510
Total assets	17,923,673	19,293,168	18,773,336	18,815,602	18,596,506	2,704,947
Trade and other payables	6,921,197	7,718,488	6,547,296	6,192,190	6,981,815	1,015,537
Short-term interest-bearing loans and borrowings	2,339,273	1,230,981	1,209,001	2,399,195	894,136	130,056
Long-term interest-bearing loans and borrowings	111,422	1,028,396	1,077,716	56,509	16,270	2,367
Non-controlling interests	1,869,954	2,042,592	2,163,382	2,190,452	2,301,978	334,833
Issued capital	1,724,196	1,724,196	1,840,227	1,955,720	2,059,076	299,502
Equity attributable to equity holders of the parent	5,901,913	6,391,573	6,988,432	7,239,617	7,683,834	1,117,649

Table of Contents

	Year ended December 31,					
	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2016 US$[1]
			(in thousands)			
Selected Consolidated Statement of Cash Flows Data:						
Net cash provided by operating activities	1,512,192	589,642	535,686	1,686,718	2,276,087	331,068
Net cash used in investing activities	(506,135)	(553,591)	(523,019)	(25,496)	(572,031)	(83,205)
Net cash used in financing activities	(2,010,937)	(553,179)	(314,749)	(485,535)	(1,553,986)	(226,036)
Effect of foreign currency exchange on cash and cash equivalents	7,706	(13,938)	(3,109)	7,332	29,480	4,290
Net (decrease)/increase in cash and cash equivalents	(997,174)	(531,066)	(305,191)	1,183,019	179,550	26,117

(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 6.8750 = US$1.00, the rate quoted by the People s Bank of China (the PBOC) at the close of business on February 28, 2017. 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, 2017 or any other date. The rate quoted by the PBOC at the close of business on December 31, 2016 was RMB 6.9370 = 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 [1] for the fiscal year /in the fiscal year (in thousands)
2012	US$0.90 [2]	RMB 234,923 [3]

2013	US$0.90 [4][5]	RMB 343,349 (US$54,999) [6]
2014	US$1.20 [7]	RMB 325,278 [8]
2015	US$1.10 [9]	RMB 271,058 [10]
2016	US$0.85 [11]	RMB 318,050 [12]

Table of Contents

(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 15, 2012, we declared a dividend of US$0.50 per ordinary share and a special dividend of US$0.40 per ordinary share amounting to a total of US$33.5 million for fiscal year 2011. This dividend was paid to our shareholders on July 9, 2012.

(3) The dividend declared by Yuchai for fiscal year 2012 was paid to us on June 7, 2013. For dividend paid for fiscal year 2012, RMB 68.4 million was paid in Renminbi and the remaining RMB 166.5 million was paid in US dollar at an exchange rate of RMB 6.1474 = US$1.00.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) The dividend declared by Yuchai for fiscal year 2016 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 2016 and upon the receipt of approval by Yuchai s shareholders.

Historical Exchange Rate Information

On December 31, 2016, the PBOC rate was RMB 6.9370 = US$1.00. On February 28, 2017, the PBOC rate was RMB 6.8750 = US$1.00.

On December 31, 2016, the noon buying rate was RMB 6.9430 = US$1.00. On February 28, 2017, the noon buying rate was RMB 6.8665 = 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 [1] (RMB per US$1.00)	
Period	**High**	**Low**
October 2016	6.7819	6.6685
November 2016	6.9195	6.7534
December 2016	6.9580	6.8771
January 2017	6.9575	6.8360
February 2017	6.8821	6.8517

March 2017	6.9132	6.8687

Table of Contents

	Noon Buying Rate [1] (RMB per US$1.00)			
Period	Period End	Average (2)	High	Low
2012	6.2301	6.3088	6.3879	6.2221
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 (through February 28, 2017)	6.8665	6.8800	6.9575	6.8360

(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 31, 2016 was RMB 6.9370 compared with RMB 6.9430 for the noon buying rate at the end of December 31, 2016.

(2) Determined by averaging the rates on each business day of each month during the relevant period.

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, 2017, our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 16,360,845 or approximately 40.2%, 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 23.4% 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 16.8% of the outstanding shares of our Common Stock as of February 28, 2017. 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.

8

Table of Contents

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 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, 2016. 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.

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 2017, global growth in 2016 slowed to 2.3% from 2.4% in 2015, the weakest performance since the global financial crisis, mainly due to stagnant global trade, subdued investment in the automobile sector and heightened policy uncertainty.

The world economy is expected to grow moderately by 2.7% in 2017 compared with 2.3% in 2016. However, the World Bank has stated that there is substantial uncertainty around global growth projections and that there is a 50% probability that actual growth will be between 2% to 3.2%. The materialization of downside risks could derail a fragile global economic recovery. The downside risks to growth include rising policy uncertainty especially regarding trade, exacerbated by recent political developments, namely in the United States and the United Kingdom, financial market disruptions amid tighter global financing conditions and growth disappointments in major economies. In contrast, fiscal stimulus in major economies, particularly the United States, where the new administration has indicated an intention to pursue expansionary fiscal policies, represents an important upside risk to growth.

Table of Contents

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 new 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, 2017, the European Commission anticipates economic recovery in the Eurozone will continue with growth in 2017 forecasted at 1.6%, down from 1.7% in 2016, and strengthening to 1.8% in 2018. However, heightened uncertainty arising from the United Kingdom s commencement of formal negotiations to withdraw from the EU, the numerous elections to be held across Europe in 2017 and the key policies to be implemented by the new administration in the United States cast uncertainty on the European Commission s forecast. 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 6.7% in 2016, the slowest rate since 1990. 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 November 15, 2013, after the closure of the Third Plenum of the 18th Chinese Communist Party Congress, the new 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, 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 around 6.5% citing increased uncertainties, challenges and instabilities both in and outside of China. The Chinese government remains committed to pursuing a range of reforms as it laid out in the November 2013 reform document on new social and economic policies and the current leadership is expected to continue to implement new economic and social policies already announced and make further changes to existing ones as it continues to rebalance its economy. The business and prospects for the diesel engine industry, and thus the business and prospects of our company, may also 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 2014, commercial vehicle sales were 2.9 million units, representing a decline of 10.8% compared with 2013 mainly due to a 13.0% decline in the truck segment. This was primarily due to the strict enforcement of the National IV emission standards from January 1, 2015. In 2015, the commercial vehicle market in China softened further and sales of commercial vehicles declined by 11.9% 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. The bus segment declined in every size category, led by a 20.1% decrease in heavy-duty bus sales. 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 and a corresponding decrease in sales of fuel-powered vehicles, particularly in the heavy-duty bus segment. 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.

Table of Contents

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.

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. Any leadership changes in China during the 19th Communist Party of China National Congress to be held in the autumn of 2017 may also result in uncertainty regarding Chinese government policies. 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.

11

Table of Contents

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.

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.

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 2016. 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 2016.

Table of Contents

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 2016, sales to the Dongfeng Group accounted for 26.2% of our total revenue, of which sales to our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Automobile Co., Ltd., accounted for 9.8% and 4.0%, respectively. In 2016, our sales to our top five customers including the Dongfeng Group accounted for 40.9% 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.

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 2016 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.

Table of Contents

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.

Increasing demand for electric vehicles may lead to decreases in demand for our engines affecting our market share and profitability.

In recent years, the Chinese government has been focused on developing the new-energy vehicle industry to curb air pollution. 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, sales of electric-powered commercial vehicles increased by approximately 400% in 2015 to 86,813 units from 17,465 units in 2014, according to CAAM. The sales of electric-powered commercial vehicle increased by approximately 60.2% in 2016 to 139,609 units compared to 86,813 units in 2015, according to CAAM. There was a corresponding decrease in sales of fuel-powered vehicles, particularly in the bus segment, which declined by 9.9% in 2016 compared to 2015, according to CAAM, resulting in a decrease in our sales of diesel engines with bus applications.

At the recent 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. 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.

If the market for electric-powered vehicles continues to develop or develops more quickly than we expect, the additional competition 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 Jiusi Investment Management Co., Ltd. to establish Y & C Engine Co., Ltd. to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. The key focus of Y & C Engine Co., Ltd. is the production of YC6K diesel engines. Production commenced in December 2010.

Table of Contents

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 and is expected to begin production in 2018. 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.

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. However, Yuchai consolidates Jining Yuchai as a result of various contractual arrangements that allow Yuchai to exercise effective control over Jining Yuchai. See Note 3.1 to the accompanying consolidated financial statements in Item 18. We may be unable to treat Jining Yuchai as a consolidated entity if our various contractual arrangements are terminated or expire without being renewed. In addition, these arrangements may not be as effective in providing control over Jining Yuchai and its equity holders as direct equity ownership. 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 intellectual property relating to the 4Y20 technology for the year ended December 31, 2014. In 2015, we recorded a further impairment loss of RMB 26.7 million. No further impairment was recorded in 2016 and as of December 31, 2016, the accumulated impairment loss recorded on the intellectual property relating to the 4Y20 technology was RMB 86.7 million. See Item 5. Impairment of long-lived assets, including goodwill and intangible assets. Any adverse developments with respect to Jining Yuchai or our inability to consolidate Jining Yuchai could adversely affect our business, financial condition and results of operations.

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. In January 2016, we announced the launch of an upgraded natural gas engine model compliant with National VI emission standards for on-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.

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.

15

Table of Contents

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 2014, Yuchai recorded engine sales of 483,825 units. In 2015, engine sales decreased to 364,567 units, a 24.6% decrease as compared with 2014. In 2016, engine sales declined further by 12.1% to 320,424 units. 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 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.

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. On February 29, 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. 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.

Table of Contents

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 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, 2012 to December 31, 2016, the Renminbi depreciated about 11.4% against the US dollar. From December 31, 2012 to December 31, 2016, the Singapore dollar depreciated about 18.4% 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.

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 and 2016 was 1.4% and 2.0%, respectively, below the 3.0% target set by the Chinese government. The inflation rate was 2.5% and 2.3% in January 2017 and February 2017, respectively. On March 5, 2017, 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 2017, the same inflation rate as in 2016. 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. 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 December 2016, the Ministry of Environmental Protection announced that all light-duty vehicles, namely passenger cars and pick-up trucks, must comply with National VI emission standards with effect from July 1, 2020. 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 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.

Table of Contents

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 only high risk assets, such as production property and equipment and certain inventory. However, our under insurance of other properties, facilities and inventory in accordance with this Chinese practice exposes us to substantial risks so that in the event of a major accident, 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.

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.

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 18th 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, 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 around 6.5% citing increased uncertainties, challenges and instabilities both in and outside of China.

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.

Table of Contents

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.

Growth in the global economy slowed to 2.3% in 2016 from 2.4% in 2015 mainly due to stagnant global trade, subdued investment and heightened policy uncertainty. Advanced economies continue to be afflicted by weak growth and low inflation amid rising uncertainty about future policy direction. After slowing to 1.6% in 2016, growth is projected to recover in 2017 to 2019 although the range of possible outcomes has significantly widened after the elections in the United States and the United Kingdom s decision to leave the European Union. According to the World Bank s Global Economic Prospects issued in January 2017, growth in China was estimated to have slowed to 6.7% in 2016 and is expected to decelerate to 6.5% in 2017 and to 6.3% in 2018 and 2019 reflecting soft external demand, heightened uncertainty over global trade prospects and slower private investment. The rebalancing from manufacturing to services and from investment to consumption is expected to slow. The National Bureau of Statistics has reported that China s economy expanded 6.7% in 2016, the slowest rate since 1990. Although the growth slowdown 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.

The demand for trucks, construction machinery and other applications of diesel engines generally increases during periods of economic expansion and decreases during periods of economic slowdown. In the event that new adverse economic developments occur in China or elsewhere in the Asian region, our sales may decrease and our business, prospects, financial condition or results of operations may suffer.

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.

Table of Contents

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, 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 policy has recently been implemented, its full applicability to a foreign-invested enterprise is currently uncertain.

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. As of February 2017, according to the situation report of the WHO, the virus continues to spread geographically in areas where competent vectors are present. 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, 2017, 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.

Table of Contents

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.

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 hotels in the PRC and Malaysia. As of February 28, 2017, 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.

Table of Contents

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 each of the hotels 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);
- 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 the HLGE group s hotels, 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 those hotels 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 the PRC and 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 the hotels that the HLGE group operates. 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 the hotels.

The HLGE group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us.

The HLGE group recorded pre-tax losses for five consecutive fiscal years from 2009 to 2013. 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 Copthorne Hotel Cameron Highlands. For fiscal year 2015, the HLGE Group recorded a pre-tax loss. 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. In addition, HLGE group owes debt obligations to repay us 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 Limited (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.

These factors have made it difficult for the HLGE group to obtaining financing from financial institutions or to repay its debt obligations to us. In view of these difficulties, we extended the S$68 million loan to HLGE for another year from July 2017 to July 2018 to provide financial support, which is essential to ensure HLGE group s ability to continue as a going concern. The current outstanding loan amount of S$68 million has been extended eight times by us since 2010.

Table of Contents

On February 13, 2017, HLGE announced the entry into of a Memorandum Of Understanding (MOU) with a third party in relation to the proposed disposal of its entire shareholding interest in a wholly-owned subsidiary of HLGE that holds its 60% shareholding interest in Copthorne Hotel Qingdao and its 100% shareholding interest in Elite Residences serviced apartments in Shanghai (Proposed Disposal). The Proposed Disposal is subject to the entry between the parties, of a sale and purchase agreement by February 28, 2017 or such other date as may be agreed by the parties in writing (Long-Stop Date). On February 28, 2017, HLGE announced that the Long-Stop Date has been extended from February 28, 2017 to March 15, 2017. On March 15, 2017, HLGE further announced that the Long-Stop Date has been extended from March 15, 2017 to April 15, 2017. On April 16, 2017, HLGE announced that no sale and purchase agreement had been entered into between the parties by the Long Stop Date and as there was no extension of the Long Stop Date, the MOU had lapsed.

The HLGE group will likely 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 to pay the outstanding debt owing to us either through additional disposals of their assets or potential merger and acquisition opportunities to grow its earnings base. There is no assurance that the Proposed Disposal will be proceeded with or that the parties will enter into a sale and purchase agreement by the Long-Stop Date or at all. 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 or to repay outstanding debt to us will adversely affect the HLGE group s business, financial performance and financial position and the HLGE group s ability to continue as a going concern that in turn could have a material adverse effect on the value of our investment in the HLGE group.

The HLGE group may be unable to remain listed.

The HLGE group recorded pre-tax losses for five consecutive fiscal years from 2009 to 2013. 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 Copthorne Hotel Cameron Highlands. For fiscal year 2015, the HLGE Group recorded a pre-tax loss and for fiscal year 2016, the HLGE Group recorded a profit. The HLGE group 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. On May 31, 2016, upon HLGE s formal request, the Singapore Exchange Securities Trading Limited granted HLGE an extension of time to June 3, 2017 to comply with the minimum criteria for continued listing. If HLGE does not comply with the listing requirements of the Singapore Stock Exchange by June 3, 2017, it may be removed from the Official List of the Singapore Stock Exchange or trading in its shares may be suspended with a view toward removal. The Monetary Authority of Singapore and the Singapore Stock Exchange introduced a minimum trading price (MTP) of S$0.20 for issuers listed on the Main Board of the Singapore Exchange, which took effect from March 2, 2015 as a continuing listing requirement. Issuers were first assessed for compliance with the MTP on March 1, 2016 and those who failed to comply with the MTP at the first review date or any of the subsequent quarterly reviews would be placed on the Watch-list. On March 2, 2015, HLGE announced that as its shares have been trading below the MTP for the past six months prior to March 2, 2015, it proposed to undertake a share consolidation of every ten existing issued ordinary shares in the share capital of HLGE into one consolidated share subject to shareholders approval and the Singapore Stock Exchange. The share consolidation was completed on May 14, 2015 following approval from its shareholders and from the Singapore Stock Exchange.

In the event that HLGE is unable to meet the requirements for continued listing, it may be removed from the official list of the Main Board of the Singapore Exchange. The delisting of HLGE s ordinary shares could make it more difficult for HLGE to raise capital and obtain financing. The resulting lack of liquidity in HLGE s ordinary shares could also affect our ability to dispose of our shareholding in HLGE. Each of these events could have a material adverse effect on HLGE s business, financial condition and operating results and its ability to continue as a going concern and its ability to pay our debt, which in turn could have a material adverse effect on our investment in the HLGE group.

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.

Table of Contents

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 2016, 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, 2017.

In February 2006, we acquired debt and equity securities in HLGE through our wholly-owned subsidiaries, Grace Star, and 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, 2017.

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

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

Through our 76.4% interest in Yuchai held by six wholly-owned subsidiaries, we primarily conduct our manufacturing and sale of diesel engines which are mainly distributed in the PRC market.

As of February 28, 2017, 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 the PRC and Malaysia.

As of February 28, 2017, 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 and retailers and provides maintenance and retrofitting services throughout China.

Table of Contents

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.

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.

25

Table of Contents

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.

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. 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 December 2016, the Ministry of Environmental Protection announced that all light-duty vehicles, namely passenger cars and pick-up trucks, must comply with National VI emission standards with effect from July 1, 2020. 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 continues to produce such engines solely for export from China.

26

Table of Contents

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 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.

(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.

In 2015, we announced the launch of 10 new engines as detailed below:

(a) The YC6L-60 diesel engine is 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 10 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 Selective Catalytic Reduction (SCR) technologies.

(b) Five new engines compliant with National V emission standards for the truck and bus markets. The YC4Y22-50 diesel engine has a 2.2 liter engine for use in light-duty trucks and buses. The YC4S-50 diesel engine has a 3.76 liter engine for medium- to high-end trucks and buses. The YC4EG-50 diesel engine contains a 4.73 liter engine for medium-duty buses and light- and medium-duty highway trucks. The YC6MK-50 is a 10.3 liter engine for on-road trucks and buses. The YC4FAN-50 natural gas engine is designed to be used in light-duty vehicles.

(c) Three new diesel engines meeting Tier-3 emission standards. Two new models, the YC6J-T30 and YC4D-T30, are for the loader, excavator and forklift markets. The YC4A-T30 engine, which has been upgraded, 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.

(d) The new 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 and diesel particle filter technologies.

Table of Contents

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, 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.

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.

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.

Table of Contents

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

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.

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-pressured 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.

29

Table of Contents

(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.

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.

Table of Contents

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 2017.

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.

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.

(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.

Table of Contents

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.

(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 and Caterpillar (China) Investment Co., Ltd. (Caterpillar China) incorporated a new joint venture company, Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (YRC), on April 7, 2010 in Suzhou, Jiangsu province to provide remanufacturing services for and relating to Yuchai s diesel engines and components and certain Caterpillar diesel engines and components. Operations commenced at a temporary workshop in 2011 and the permanent factory located in the Suzhou Industrial Park in 2012. On June 12, 2014, Yuchai entered into an equity transfer agreement with Caterpillar China to acquire its 49% equity ownership in YRC. On September 4, 2014, Yuchai completed the acquisition resulting in YRC becoming its wholly-owned subsidiary and Yuchai continues to provide remanufacturing services through YRC.

Table of Contents

Sales

In 2016, according to CAAM, engine sales for commercial vehicles (excluding gasoline-powered and electric-powered vehicles) in China was approximately 2.7 million units, an increase of 8.3% compared to 2015. Yuchai s total engine sales in 2016 were 320,424 units, a decrease of 12.1% compared with 364,567 units in 2015.

Light-duty engine sales in 2016 was 202,168 units, or 63.1% of total unit sales, which was a decrease of 3.1 percentage points compared to 66.2% in 2015, when light-duty engine sales were 241,277 units. Medium-duty engine sales were 74,309 units, or 23.2% of total unit sales, compared to 2015 where sales were 79,519 units or 21.8% of total unit sales. Heavy-duty engine sales was 43,764 units, or 13.7% of total sales units, compared to 2015 where sales were 43,697 units, or 12.0% of total unit sales.

In 2016, Yuchai sold approximately 17,295 natural gas engine units compared with approximately 22,583 units sold in 2015. The following table sets forth a breakdown of Yuchai s sales by major product category for fiscal years 2014, 2015 and 2016:

	2014			2015			2016		
	Revenue RMB 000	% of Revenue	Unit Sold	Revenue RMB 000	% of Revenue	Unit Sold	Revenue RMB 000	% of Revenue	Unit Sold
Light-duty engines [1]	6,060,017	37.0%	303,557	5,319,675	38.9%	241,277	4,929,472	36.2%	202,168
Medium-duty engines [2]	3,911,911	23.9%	117,095	3,100,551	22.7%	79,519	3,028,997	22.3%	74,309
Heavy-duty engines [2]	3,630,395	22.1%	63,168	2,679,378	19.6%	43,697	2,972,022	21.9%	43,764
Other products and services[3]	2,785,033	17.0%	5	2,572,327	18.8%	74	2,667,996	19.6%	183
	16,387,356	100.0%	483,825	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424

(1) Includes passenger car engines.
(2) Includes natural gas engines.
(3) 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.

As of December 31, 2016, Yuchai s total technical production capacity was approximately 596,250 units as compared with 577,500 units as of December 31, 2015, based on a 2.5 shift five-day week at 80% utilization rate. The marginal increase was attributed to additional capacity from equipment that was relocated from Xiamen Yuchai to Yuchai s production facilities in Yulin City.

We typically outsource approximately 10% to 20% of our annual sales requirements to third party manufacturers. In 2016, we sold 320,424 units, of which 303,043 units were produced at Yuchai s Yulin facility, and the remaining units sold were produced by third party manufacturers or 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, 2014, 2015 and 2016:

	2014		2015		2016	
	Units	% of Units	Units	% of Units	Units	% of Units
Light-duty engines [1]	232,980	60.6%	210,290	63.2%	183,590	60.6%
Medium-duty engines [2]	88,591	23.1%	76,926	23.1%	76,686	25.3%
Heavy-duty engines [2]	62,681	16.3%	45,551	13.7%	42,387	14.0%
Power generator sets	8	0.0%	40	0.0%	380	0.1%
	384,260	100.0%	332,807	100.0%	303,043	100.0%

(1) Includes passenger car engines.
(2) Includes natural gas engines.

Table of Contents

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 338,000 units of engine blocks in 2016 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.

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 2014, 2015 and 2016, Yuchai spent approximately RMB 494.6 million, RMB 507.0 million and RMB 588.0 million (US$85.5 million), respectively, on research and development. In 2014, Yuchai s research and development efforts were focused on the development of high horsepower marine diesel engines and power generator engines on power extension for both YC6T and YC6C engines, and the upgrading of engine electronic control system for both heavy-duty and natural gas engines as well as finalization of the technology of Tier-3 compliant engines for off-road applications. 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. We expect these research and development initiatives to continue in 2017.

34

Table of Contents

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 929 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 2,736 authorized customer service stations. The customer service stations are independently owned and are able to provide emergency services to its end-users within a 40-km radius in the central, eastern and southern parts of China.

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

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

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 2015, sales to the Dongfeng Group accounted for approximately 21.1% of Yuchai s total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Xiangfan Tourist Bus Co., Ltd., accounted for 10.9%. 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%. 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 40.9% of our total revenue in 2016. 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, 2015, Yuchai had net trade and bills receivables of RMB 7,178.5 million, representing 54.7% of our consolidated current assets as of the same date. As of December 31, 2016, Yuchai had net trade and bills receivables of RMB 7,055.1 million (US$1,026.2 million), representing 53.1% of our consolidated current assets.

Table of Contents

Export Sales

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

	2014			2015			2016		
	Revenue RMB 000	% of Revenue	Unit Sales	Revenue RMB 000	% of Revenue	Unit Sales	Revenue RMB 000	% of Revenue	Unit Sales
Total Domestic Sales	16,336,831	99.7%	483,013	13,605,782	99.5%	363,700	13,458,275	99.0%	317,726
Total Direct Export Sales	50,525	0.3%	812	66,149	0.5%	867	140,212	1.0%	2,698
	16,387,356	100.0%	483,825	13,671,931	100.0%	364,567	13,598,487	100.0%	320,424

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 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 2014, 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, Saudi Arabia, Philippines and Russia.

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, 2016 to February 28, 2017, 520 engines had been sold pursuant to this agreement.

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.

Table of Contents

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 2016, sales to the Dongfeng Group accounted for 26.2% of our total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Automobile Co., Ltd., accounted for 13.8% in total. Our sales to our top five customers including sales to the Dongfeng Group accounted for 40.9% of our total revenue in 2016. 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 HLGE group

As of February 28, 2017, 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$0.40 on February 28, 2017. The core businesses of the HLGE group are that of hospitality operations and property development.

The HLGE group owns a Copthorne hotel in Qingdao (PRC), Elite Residences serviced apartments in Shanghai (PRC), and a Copthorne hotel in Cameron Highlands (Malaysia). In addition, the HLGE group manages, among other things, these hotels and apartment in Shanghai, Qingdao and Cameron Highlands. On February 13, 2017, HLGE announced that it had entered into an MOU with a third party in relation to the proposed disposal of its entire shareholding interest in a wholly-owned subsidiary of HLGE that holds its 60% shareholding interest in Copthorne Hotel Qingdao and its 100% shareholding interest in Elite Residences. The Proposed Disposal is subject to the entry between the parties, of a sale and purchase agreement by February 28, 2017 or such other date as may be agreed by the parties in writing. On February 28, 2017, HLGE announced that the Long-Stop Date has been extended from February 28, 2017 to March 15, 2017. On March 15, 2017, HLGE further announced that the Long-Stop Date has been extended from March 15, 2017 to April 15, 2017. On April 16, 2017, HLGE announced that no sale and purchase agreement had been entered into between the parties by the Long Stop Date and as there was no extension of the Long Stop Date, the MOU had lapsed.

A more detailed description of HLGE s various hotel properties is set out below:

Copthorne Hotel Qingdao

Copthorne Hotel Qingdao is an international deluxe hotel located in the commercial district of Qingdao. The property has over 455 guest rooms. 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 (SUAEE). The sales was listed on the SUAEE on February 23, 2016 and re-listed on March 28, 2016 (Second Listing). On March 22, 2016 and April 26, 2016, HLGE announced that both public tenders had received no bids notwithstanding a reduced reserve price for the Second Listing. On August 4, 2016, HLGE announced that, after consideration of the available options with the other 40% equity holder, it would be proceeding with the public tender process on SUAEE after undertaking a re-valuation of Copthorne Hotel Qingdao. On November 3, 2016, HLGE announced that approval was being sought for the re-valuation price of the hotel. Under the terms of the Proposed Disposal, the parties have agreed that the sale of Copthorne Hotel Qingdao may continue to proceed through the public tender process on SUAEE. On March 31, 2017, HLGE announced that it had on the same day, together with the other 40% equity holder, pre-listed its entire shareholding interest in Copthorne Hotel Qingdao on SUAEE in accordance with the amended listing procedures of SUAEE. The pre-listing process would be for a fixed period of 20 business days and interested parties would not be invited to put in a bid nor will a reserve price be set. Upon the expiry of the pre-listing period on April 28, 2017, the formal listing of the sale will take place whereupon interested parties will be invited to put in their bids. Upon the close of the public tender process, the successful bidder (if any) will be selected by SUAEE and the sellers whereupon a sale and purchase agreement can be negotiated and entered into.

Elite Residences

The property comprises a 16-story building located in Shanghai. The property has over 106 re-furbished apartment units and is located near Shanghai s central district.

Copthorne Hotel Cameron Highlands

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. In July 2014, HLGE completed the acquisition by its wholly owned subsidiary, of the remaining 55% equity interest in Augustland Hotel Sdn Bhd (AHSB) that owns Copthorne Hotel Cameron Highlands.

Table of Contents

Equatorial Hotel Shanghai

Equatorial Hotel Shanghai is managed by a joint venture of the HLGE Group, and is located in the heart of Shanghai. The property has over 506 guest rooms which have all been fully refurbished.

Renovation and maintenance.

To maintain the competitiveness of its hotels, HLGE carries out renovation programs at its hotels from time to time as required.

HLGE owes debt obligations to us. For more information on our loan to HLGE and risks relating to our investment in HLGE, see Item 3. Key Information Risk Factors Risks relating to our investment in HLGE.

Table of Contents

Organizational Structure

The following chart illustrates the organizational structure of the Company and Yuchai as of February 28, 2017 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, 2014, 2015 and 2016, Yuchai s total production capacity was approximately 652,500 units, 577,500 units and 596,250 units, based on a 2.5 shift five-day week at 80% utilization rate. We typically outsource approximately 10% to 20% of our annual sales requirements to third party manufacturers. 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.

Table of Contents

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 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.

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.

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. In December 2016, the Ministry of Environmental Protection announced that all light-duty vehicles, namely passenger cars and pick-up trucks, must comply with National VI emission standards with effect from July 1, 2020. 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 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.

41

Table of Contents

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, 2014, 2015 and 2016, 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.

Table of Contents

Overview

The China economy is expected to grow at a slower pace in 2017. The pace of economic growth in China slowed from 7.7% in 2013 to 7.4% in 2014 to 6.9% in 2015 and 6.7% in 2016, according to China s National Bureau of Statistics. On March 5, 2015, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced the lowering of the growth target for China in 2015 to 7.0%, acknowledging that China s economic development had entered a new normal. 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%.

The Chinese commercial vehicle market is a highly competitive market. According to CAAM, in 2014, the market softened and commercial vehicle sales were 2.9 million units, representing a decline of 10.8% compared to 2013. This was mainly due to the decline in sales units for trucks of 13.0%, offset by the increase in sales for buses of 4.2%. In 2015, the market further softened and 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 electric powered vehicles, the commercial vehicle market (excluding gasoline powered and electric powered vehicles) 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. 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% 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 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, sales of electric-powered vehicles increased by approximately 60.2% in 2016 to 139,060 units from 86,813 units in 2015. There was a corresponding decrease in sales other fuel powered vehicles which has affected our sales of diesel and natural gas engines. At the recent legislative session of the National People s Congress in March 2017, the Ministry of Industry and Information Technology is 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 expects 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.

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 2014, Yuchai recorded engines sales of 483,825 units which decreased by 3.4% compared with 2013 as the commercial vehicle market softened. Our net revenue increased by 3.4% to RMB 16.4 billion. This was due to higher sales of engines that are compliant with higher emission standard such as National IV. The higher emission standard engines have a higher average sales price. In 2015, engine sales declined by 24.6% to 364,567 units as the commercial vehicle market further weakened. 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 (US$2.0 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.

Our light-duty engine sales, as a percentage of total unit sales, increased from 62.7% in 2014 to 66.2% in 2015 and decreased to 63.1% in 2016. This change in sales mix and the market competition caused our gross margin to fluctuate from 20.0% in 2014 to 20.3% in 2015 and 21.7% in 2016, respectively.

43

Table of Contents

As a result, our profit attributable to equity holders was RMB 730.3 million, RMB 341.1 million and RMB 515.7 million (US$75.0 million) for the year 2014, 2015 and 2016, 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%.

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, 2016 and February 28, 2017, our equity interest in TCL remained at 7.7%, and the market value of our investment in TCL amounted to approximately S$2.5 million (US$1.8 million) and S$2.6 million (US$1.9 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, 2016, our equity interest in HLGE was 48.9%. As of February 28, 2017, our equity interest in HLGE remained unchanged. On February 8, 2017, we entered into a loan agreement with HLGE extending the loan of S$68.0 million for another year from July 2017 to July 2018. See Item 3. Key Information Risk Factors Risks relating to our investment in HLGE The HLGE Group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us.

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:

- allowances for doubtful accounts;
- realization of the carrying value of inventories;
- product warranty obligations;

Table of Contents

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;

Allowances for doubtful accounts

Allowance for doubtful accounts is management s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. Management determines the allowance based on assessment of the recoverability of accounts receivable. Allowances 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 allowance for doubtful accounts on a monthly basis. As of December 31, 2016, the Dongfeng Group accounted for about 11.6% of the gross accounts receivable as compared to approximately 4.6% as of December 31, 2015. Likewise, the top 20 non-Dongfeng Group customers accounted for about 39.5% of the gross accounts receivable at the end of 2016. We analyzed our customer s trends, repayment patterns and aging analysis in 2016. The balances that were past due over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Changes in the allowances for doubtful accounts for each of the years in the two-year period ended December 31, 2016 are summarized as follows:

	December 31,		
	2015 RMB	2016 RMB	2016 US$
		(in thousands)	
Balance at beginning of year	21,927	51,288	7,460
Charge to consolidated statements of profit or loss	30,192	3,696	538
Written off	(827)	(346)	(50)
Translation differences	(4)	(4)	(1)
Balance at end of year	51,288	54,634	7,947

Trade accounts receivables decreased by RMB 141.3 million (US$20.6 million) as of December 31, 2016 as compared to 2015. Allowance for doubtful accounts increased by RMB 3.3 million (US$0.5 million). Bills receivable increased by RMB 23.4 million (US$3.4 million) as of December 31, 2016 as compared to 2015.

We believe that the present level of our allowance for doubtful accounts 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 allowance. If economic or specific industry trends change, we would adjust our allowance for doubtful accounts 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 inventory provision as at December 31, 2015 and 2016 were RMB 132.3 million and RMB 126.8 million (US$18.4 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.

Table of Contents

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.

Changes in the accrued product warranty liability for each of the years in the two-year period ended December 31, 2016 are summarized as follows:

	December 31,		
	2015	2016	2016
	RMB	RMB	US$
		(in thousands)	
Balance at beginning of year	298,552	233,577	33,975
Provision made	307,575	350,803	51,026
Less: Provision utilized	(372,550)	(345,530)	(50,259)
Balance at end of year	233,577	238,850	34,742

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 18.0 million (US$2.6 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 2014, we performed impairment evaluation of our investments and determined that no impairment was required. 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 (SUAEE). The sale was listed on the SUAEE on February 23, 2016 and re-listed on March 28, 2016. As a result, our investment in CHQ was reclassified as asset held for sale. As of December 31, 2016, we remain committed to the sale of the equity interest in CHQ. In 2016, we performed impairment evaluation of our 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.

Table of Contents

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.

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. 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 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of intangible assets as of December 31, 2014, 2015 and 2016 are RMB 108.5 million, RMB 81.8 million and RMB 81.8 million (US$11.9 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 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 further impairment charge was recognized. As a result, we made a total impairment charge of RMB 86.7 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, 2014, 2015 and 2016 are RMB 212.6 million, RMB 212.6 million and RMB 212.6 million (US$30.9 million), respectively. We periodically conduct an impairment evaluation on the goodwill. No impairment was made for 2014, 2015 and 2016.

Our market capitalization as of December 31, 2014, 2015 and 2016 based on our closing share price was lower than our consolidated net assets. We performed our annual goodwill impairment tests as of December 31, 2014, 2015 and 2016, 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.

Table of Contents

Results of Operations

The following table sets forth our consolidated statement of operations as a percentage of our revenue for the last three fiscal years ended December 31, 2014, 2015 and 2016:

	Percentage of Revenue Year Ended December 31,		
	2014	2015	2016
Revenue	100.0%	100.0%	100%
Cost of sales	-80.0%	-79.7%	-78.3%
Gross profit	20.0%	20.3%	21.7%
Other income, net	0.6%	0.2%	0.7%
Research and development costs	-3.0%	-3.7%	-4.3%
Selling, distribution and administrative costs	-9.7%	-10.9%	-11.0%
Operating profit	7.9%	5.9%	7.1%
Finance costs	-1.0%	-0.9%	-0.6%
Share of profit of associates	0.0%	0.0%	0.0%
Share of results of joint ventures	-0.2%	0.0%	0.0%
Gains arising from acquisitions	0.6%		
Profit before tax	7.3%	5.0%	6.5%
Income tax expense	-1.1%	-1.3%	-1.2%
Profit for the year	6.2%	3.7%	5.3%
Attributable to:			
Equity holders of the Parent	4.4%	2.5%	3.8%
Non-controlling interests	1.8%	1.2%	1.5%

2016 compared to 2015

Revenue for 2016 was RMB 13,664.8 million (US$1,987.6 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 (US$1,556.5 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 (US$1,354.7 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 (US$98.7 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 (US$46.9 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.

Gross profit was RMB 2,964.2 million (US$431.2 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 (US$13.9 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 (US$8.3 million), and (ii) government grants of RMB 41.5 million (US$6.0 million).

48

Table of Contents

Research and development (R&D) expenses were RMB 588.0 million (US$ 85.5 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 (US$218.8 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 (US$51.0 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 (US$4.0 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 (US$140.7 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 (US$11.6 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 (US$132.4 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 (US$ 0.6 million) as compared with a loss of RMB 2.9 million in 2015.

Profit before tax was RMB 883.9 million (US$128.6 million) in 2016 compared with RMB 686.1 million in 2015.

Income tax expense in 2016 was RMB 160.3 million (US$23.3 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 (US$105.3 million) in 2016 compared with RMB 509.3 million in 2015, representing an increase of 42.1%.

Profit attributable to shareholders was RMB 515.7 million (US$75.0 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 (US$30.2 million) compared with RMB 168.2 million in 2015, representing an increase of 23.6%.

2015 compared to 2014

Revenue for 2015 was RMB 13,733.4 million (US$2,098.2 million) compared with RMB 16,436.1 million in 2014, a decrease of 16.4%. The total number of diesel engines sold by Yuchai during 2015 was 364,567 units compared with 483,825 units in 2014, representing a decrease of 119,258 units, or 24.6%. Revenue decreased due to fewer unit sales, particularly in the medium- and heavy-duty truck segments. 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 better average selling price compared with lower emission standard engines. The decline in unit sales is attributed to increased demand for electric-powered vehicles and weak demand for trucks. CAAM reported that sales of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) decreased by 14.4% in 2015 while sales in the heavy- and medium-duty truck segments declined 26.0% and 21.0%, respectively. The market was also weak in the heavy- and medium-duty bus segments, where sales declined 25.5% and 19.8%, respectively.

Cost of sales was RMB 10,942.9 million (US$1,671.9 million) in 2015, a decrease of 16.8% from RMB 13,145.2 million in 2014, and a decrease of 0.3 percentage points as a percentage of revenue to 79.7% from 80.0% in 2014. The decrease in cost of sales corresponds to the reduction in the total number of engines sold in 2015 as compared to 2014. Cost of materials consumed was RMB 9,531.4 million (US$1,456.2 million) in 2015, a decreased of 19.1% from RMB 11,781.0 million in 2014. This was 69.4% of revenue in 2015 compared to 71.7% in 2014, respectively, primarily due to a decrease in the prices of raw materials in 2015 compared to 2014. Factory overheads (excluding depreciation) were RMB 668.2 million (US$102.1 million) in 2015, representing a decrease of 3.6% from RMB 693.5 million in 2014, these were 4.9% and 4.2% of revenue for 2015 and 2014, respectively. Depreciation was RMB 320.0 million (US$48.9 million) in 2015, an increase of 6.7% from RMB 299.8 million in 2014, these were 2.3% and 1.8% of revenue for 2015 and 2014, respectively.

Gross profit was RMB 2,790.6 million (US$426.4 million) compared with RMB 3,291.0 million in 2014, a decrease of 15.2%. Gross profit margin was 20.3% in 2015 as compared with 20.0% in 2014. 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.

Table of Contents

Other income, net was RMB 19.3 million (US$2.9 million) compared with RMB 94.9 million in 2014. This decrease was mainly due to foreign exchange losses and losses from the disposal of Yuchai s entire shareholding interest in Xiamen Yuchai Diesel Engines Co., Ltd. The main sources of other income in 2015 were (i) interest income of RMB 41.3 million (US$6.3 million), and (ii) Government grant income of RMB 31.2 million (US$4.8 million).

Research and development (R&D) expenses were RMB 507.0 million (US$77.5 million) in 2015 compared to RMB 494.6 million in 2014, an increase of RMB 12.4 million or 2.5%. R&D expenses were 3.7% and 3.0% of revenue in 2015 and 2014, respectively. 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 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.

Selling, general and administrative (SG&A) expenses were RMB 1,497.8 million (US$228.8 million) compared to RMB 1,598.7 million in 2014, a decrease of RMB 100.9 million or 6.3%. SG&A expenses were 10.9% and 9.7% of revenue in 2015 and 2014, respectively. Warranty expenses were RMB 307.6 million (US$47.0 million) in 2015 as compared to RMB 394.9 million in 2014, these were 2.2% and 2.4% of revenue for 2015 and 2014, respectively. Advertising expenses were RMB 32.8 million (US$5.0 million) in 2015 compared to RMB 40.0 million in 2014. As a percentage of revenue, these were 0.2% for both 2015 and 2014.

As a result, operating profit decreased 37.7% to RMB 805.2 million (US$123.0 million) from RMB 1,292.6 million in 2014, mainly due to lower gross profit and other income, partially offset by lower SG&A expenses. The operating margin was 5.9% and 7.9% for 2015 and 2014, respectively.

Finance costs declined to RMB 116.4 million (US$17.8 million) from RMB 156.7 million in 2014, a decrease of RMB 40.3 million or 25.7%. Lower finance costs mainly resulted from lower costs for term loans and fewer bills discounting.

The share of joint ventures was a loss of RMB 2.9 million (US$0.4 million) as compared with a loss of RMB 30.7 million in 2014. The loss decreased by RMB 27.8 million. This was mainly due to the reversal of impairment made for a joint venture of our subsidiary that was booked in 2013.

Profit before tax was RMB 686.1 million (US$104.8 million) in 2015 compared with RMB 1,201.4 million in 2014.

Income tax expense in 2015 was RMB 176.8 million (US$27.0 million) compared with RMB 179.6 million in 2014. Our effective tax rates were 25.8% and 15.0%, for 2015 and 2014, respectively. In 2015, the higher effective tax rate was mainly due to the writing down of a deferred tax asset relating to a subsidiary which was loss making.

As a result of the foregoing factors, profit for the year was RMB 509.3 million (US$77.8 million) in 2015 compared with RMB 1,021.7 million in 2014, representing an decrease of 50.2%.

Profit attributable to us was RMB 341.1 million (US$52.1 million) in 2015 compared with RMB 730.3 million in 2014, representing a decrease of 53.3%. Profit attributable to non-controlling interests was RMB 168.2 million (US$25.7 million) compared with RMB 291.5 million in 2014, representing a decrease of 42.3%.

Inflation

The general annual inflation rate in China was 1.4% in 2015 increasing to 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.

Table of Contents

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 Singapore dollar, US dollar, Euro and Renminbi 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, 2016, we had approximately RMB 4,053.0 million (US$589.5 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, 2016, we had outstanding borrowings of RMB 910.4 million (US$132.4 million), including Yuchai s borrowings of RMB 857.8 million (US$124.8 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 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.

Table of Contents

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 new unsecured multi-currency revolving credit facility had a committed aggregate value of US$30.0 million and matured on March 17, 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 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 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 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 new 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 new 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 new 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.

Table of Contents

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.

As of December 31, 2016, CYI s (including Yuchai) unutilized facilities amounted to RMB 318.6 million (US$46.3million).

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:

	For Year ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	2016 US$
		(in thousands)		
Net cash from operating activities	535,686	1,686,718	2,276,087	331,068
Net cash used in investing activities	(523,019)	(25,496)	(572,031)	(83,205)
Net cash used in financing activities	(314,749)	(485,535)	(1,553,986)	(226,036)
Effect of foreign currency exchange on cash and cash equivalents	(3,109)	7,332	29,480	4,290
Net (decrease)/increase in cash and cash equivalents	(305,191)	1,183,019	179,550	26,117

In 2016, net cash from operating activities was an inflow of RMB 2,276.1 million (US$331.1 million). The inflow was mainly derived from profit before tax of RMB 883.9 million (US$ 128.6 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 2014, net cash from operating activities was an inflow of RMB 535.7 million. The inflow was mainly derived from profit before tax of RMB 1,201.4 million offset by changes in working capital such as lower trade and other payables

In 2016, net cash used in investing activities was an outflow of RMB 572.0 million (US$83.2 million). The outflow was mainly due to purchase of property, plant and equipment of RMB 351.5 million (US$ 51.1 million), net placement of fixed deposits with banks of RMB 282.8 million (US$ 41.1 million), offset by interest received of RMB 56.7 million (US$ 8.3 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. In 2014, net cash used in investing activities was an outflow of RMB 523.0 million. The outflow was mainly due to purchase of property, plant and equipment of RMB 660.9 million and net withdrawal of fixed deposits with banks of RMB 100.4 million and inflow from interest received of RMB 50.1 million.

In 2016, net cash used in financing activities was an outflow of RMB 1,554.0 million (US$226.0 million). The outflow was mainly due to repayment of Medium Term Notes and Ultra Short-Term Bond of RMB 1.0 billion (US$ 145.5 million) and RMB 400.0 million (US$ 58.2 million), respectively. In 2015, net cash used in financing activities was an outflow of RMB 485.5 million. The outflow 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 2014, net cash used in financing activities was an outflow of RMB 314.7 million. The outflow was mainly due to payment of dividend of RMB 315.4 million.

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

Our working capital as of December 31, 2016 was RMB 5,272.1 million (US$766.8 million) compared to RMB 4,366.4 million as of December 31, 2015.

Table of Contents

As of December 31, 2016, we had long-term interest-bearing loans and borrowings totaling RMB 16.3 million (US$2.4 million) and current interest-bearing loans and borrowings totaling RMB 894.1 million (US$130.1 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, 2016:

		Payments Due by Period			
Contractual Obligations	**Total RMB**	**Less than 1 Year RMB**	**2-3 Years RMB**	**4-5 Years RMB**	**More than 5 Years RMB**
			(in millions)		
Short-term debt [(1)]	909.8	909.8			
Long-term debt [(1)]	18.4		11.0	7.4	
Purchase obligations regarding capital expenditures[(2)]	427.1	427.1			
Operating lease commitments	26.2	12.1	10.6	3.4	0.1
Total	1,381.5	1,349.0	21.6	10.8	0.1

(1) Includes contractual interest payments

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

Capital Expenditures

Our capital expenditures were RMB 683.9 million, RMB 429.9 million and RMB 285.0 million (US$41.5 million) in 2014, 2015 and 2016, 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, 2016, we had committed capital expenditures for upgrading existing facilities and building new facilities in the amount of RMB 427.1 million (US$62.1 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.

Off-Balance Sheet Arrangements

As of December 31, 2015 and 2016, in order to facilitate customer and supplier arrangements, Yuchai had issued irrevocable letter of credits of RMB 4.0 million and RMB 29.7 million (US$4.3 million), respectively. These were issued for purchase of production materials, machinery and equipment.

As of December 31, 2015, we had no outstanding bills receivable discounted with banks for which Yuchai retained a recourse obligation. As of December 31, 2016, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled RMB 817.4 million (US$118.9 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, 2015 and 2016, outstanding bills receivable endorsed to suppliers for which Yuchai had retained a recourse obligation totaled RMB 859.7 million and RMB 851.1 million (US$123.8 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.

Table of Contents

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 International Accounting Standards Board (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 does not apply hedge accounting. During 2016, the Group performed a preliminary assessment of IFRS 9 which is subject to changes arising from a more detailed ongoing analysis.

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

(a) Classification and measurement

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under IFRS 9.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model 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 loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group expects an increase in the impairment loss allowance due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

Transition

The Group plans to adopt the new standard on the required effective date without restating prior periods information and recognizes any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

During 2016, the Group performed a preliminary assessment of IFRS 15 which is subject to changes arising from a more detailed ongoing analysis. The Group s major businesses are manufacturing, assembling, and selling of diesel engines and related products.

Table of Contents

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

(a) Variable consideration

Contracts with customers provide trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception. IFRS 15 requires the estimated variable consideration to be constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur to prevent over-recognition of revenue. The Group continues to assess individual contract to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(b) Warranty obligations

The Group provides warranties for both general repairs and maintenance services in its contracts with customers. For general repairs, the Group expects that 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, the Group expects that such warranties will be service-type warranties. IFRS 15 requires the Group to defer an allocated amount, based on a relative stand-alone selling price allocation, which, in most cases, will increase judgement and complexity. The Group continues to assess individual warranty contracts to determine the allocated amount to be deferred. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(c) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increase the details of disclosures required in the Group s financial statements.

Transition

The following practical expedients are available when applying IFRS 15 retrospectively.

For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.

For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and

For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

identifying the satisfied and unsatisfied performance obligations;

determining the transaction price; and

allocating the transaction price to the satisfied and unsatisfied performance obligations.

For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Group plans to adopt the new standard on the required effective date using the full retrospective method and apply all the practical expedients available for full retrospective approach under IFRS 15 as listed above. The Group is currently performing a detailed analysis under IFRS 15 to determine its election of the practical expedients and to quantify the transition adjustments on its financial statements.

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

IAS 7 ***Disclosure Initiative Amendments to IAS 7***

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB s Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

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.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have material impact to the Group.

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 transaction, all the share options outstanding as at December 31, 2016 will vest 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.

Table of Contents

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 is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

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 the new insurance contracts standard that the IASB is developing to replace 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 recognise 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.

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

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

Table of Contents

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.

Annual improvements 2014-2016 cycle

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 organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

(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.

AIP 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.

The amendments are effective from January 1, 2017 and must be applied retrospectively.

These amendments are not expected 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, 2017, 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.

Table of Contents

Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming [(1)(4)]	President and Director	2011
GAN Khai Choon [(1)(4)]	Director	1995
KWEK Leng Peck [(1)(2)]	Director	1994
YAN Ping[(1)]	Director	2012
WU Qiwei[(1)]	Alternate Director to YAN Ping	2012
NEO Poh Kiat [(1)(2)(3)]	Director	2005
TAN Aik-Leang [(1)(3)]	Director	2005
HAN Yiyong [(1)]	Director	2010
HO Chi-Keung Raymond[(2)(3)]	Director	2013
PHUNG Khong Fock Thomas [(1)]	Chief Financial Officer	2016
FOO Shing Mei Deborah	General Counsel	2007
Conyers Corporate Services (Bermuda) Limited[(5)]	Secretary	2015

Dr. Phung Khong Fock Thomas was appointed Chief Financial Officer with effect from June 1, 2016 to replace Mr. Leong Kok Ho who relinquished his position in order to assume the role of Chief Financial Officer at Hong Leong Asia.

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

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

Mr. Kwek Leng Peck is a Director of the Company. He is a member of the Kwek family which controls the Hong Leong Investment Holdings group of companies. He is an Executive Director of Hong Leong Asia and 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.

Table of Contents

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 the Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd, a financial advisory firm in Singapore. Between 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 Asia Airfreight Terminal Co Ltd, Cambodia Post Bank Plc, Fullerton Credit (Sichuan) Ltd, Fullerton Credit (Chongqing) Ltd, Fullerton Credit (Hubei) Ltd and Fullerton Credit (Yunnan) Ltd. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE s corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan 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. Chi-Keung Ho Raymond 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; and also as an Of Counsel of Fred Kan & Co., a law firm based in Hong Kong with an operation in Tokyo. 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 practicing member of the Law Society of Hong Kong; and a non-practising member of The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho currently is 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 the Chairman and a Director of Coomber as well as the Company Secretary to Yuchai s Board of Directors. He holds a Bachelor s Degree in Vehicle Engineering from the Shandong University of Technology and a Master s Degree in Power Machinery and Engineering from Guangxi University.

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.

Ms. Foo Shing Mei Deborah was appointed General Counsel of the Company with effect from December 10, 2007. Ms. Foo has more than 20 years of commercial and corporate experience gained from various in-house positions in Singapore and Hong Kong. Prior to joining the Company, she held the positions of Vice President of Group Legal and Company Secretary at NASDAQ-listed Pacific Internet Limited. She holds a BA (Hons) in Law and History from the University of Keele, UK and a Masters of Law Degree in Commercial and Corporate law from the University of London, UK. She is a Barrister-at-Law (Middle Temple) and is admitted as an Advocate and Solicitor in Singapore.

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

Table of Contents

Audit Committee

The Audit Committee is comprised of three independent non-executive directors, namely Messrs. Tan Aik-Leang (Chairman), Neo Poh Kiat and Ho Chi-Keung Raymond. 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.

Compensation Committee

The members of the Compensation Committee are Messrs. Kwek Leng Peck (Chairman), Neo Poh Kiat and Ho Chi-Keung Raymond. 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, 2017 are identified below.

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

LIANG Qingyan	Vice President	2015
TAN Guirong	Vice President	2015
NING Xingyong	Vice President	2015

(1) Also a Director of the Company.
(2) Also an Alternate Director of the Company to Mr. Yan Ping.
(3) Secondees of the Company, whose salaries and expenses are paid by the Company.

Table of Contents

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.

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 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 September 2013. She holds a Bachelor s degree in Auditing from Nanjing Auditing Institute.

Mr. Ye Bin was appointed a Vice President of Yuchai in 2015. He holds a Bachelor s degree in Material Science and Engineering from Huazhong University of Science and Technology.

Mr. Wang Limin was appointed a Vice President of Yuchai in 2015. He was appointed 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. Liang Qingyan was appointed Vice President of Yuchai in 2015. He was appointed a Deputy General Manager of Yuchai on July 30, 2009. He holds a Bachelor s degree in Mechanical Manufacture Technology and Equipment from Guangxi University.

Mr. Tan Guirong was appointed Vice President of Yuchai in 2015. He holds a Master s degree in Business Administration from Huazhong University of Science and Technology.

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

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.

Table of Contents

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.

Table of Contents

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, 2017, 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 2016, 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 2016, 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.

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.

Table of Contents

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, 2016, there were 530,000 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, 2016 and February 28, 2017, two thirds of all options granted have vested in the grantees. The share options granted to our former Chief Financial Officer, Leong Kok Ho, were cancelled upon his ceasing to be an employee of the Company on June 1, 2016.

Name	Option Award	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	40,000	$ 21.11	July 29, 2014	July 28, 2024
FOO Shing Mei Deborah	40,000	$ 21.11	July 29, 2014	July 28, 2024
TAY Hui Boon Kelly	20,000	$ 21.11	July 29, 2014	July 28, 2024
	530,000			

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.

Table of Contents

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 2016 was approximately RMB 62.2 million (US$ 9.0 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, 2014, 2015 and 2016, Yuchai employed approximately, 11,404, 10,420 and 9,887 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 2016, the total annual salary and bonus paid to Yuchai s employees was RMB 897.5 million (US$130.5 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.

Table of Contents

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, 2017 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 40,712,100 shares of Common Stock outstanding as of February 28, 2017.

Identity of Person or Group	Number	Percentage
Hong Leong Asia Ltd [1]	16,360,845	40.2%
The Yulin City Government [2]	7,028,151	17.3%
Shah Capital Management [3]	3,416,382	8.4%

(1) 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 40.2% 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 and from 38.7% to 40.2% as of June 29, 2016. 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.

(2) 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.

(3) Information based on a report on Form 13F filed by Shah Capital Management with the SEC on January 25, 2017 for the fourth quarter ended December 31, 2016.

As of February 28, 2017, there were 25,791,103 shares of Common Stock, or 63.3% of the total number of shares of Common Stock, held of record by 16 persons 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.

68

Table of Contents

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.

Related Party Transactions

Shareholders Agreement

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

In addition to the Shareholders Agreement, Hong Leong Asia, China Everbright Holdings and Diesel Machinery had entered into a Subscription and Shareholders Agreement on November 9, 1994, as amended on January 21, 2002 and May 17, 2002, or the Diesel Machinery Shareholders Agreement, which provided for certain matters relating to the management of Diesel Machinery, the Company, Yuchai and the ownership of Diesel Machinery stock. The Diesel Machinery Shareholders Agreement provided that Hong Leong Asia would control Diesel Machinery, provided, however, that if Hong Leong Asia and its affiliates ceased to own directly or through Diesel Machinery at least 7,290,000 shares of Common Stock when China Everbright Holdings and its affiliates own directly or through Diesel Machinery at least 6,570,000 shares of Common Stock, China Everbright Holdings would control Diesel Machinery. The Diesel Machinery Shareholders Agreement provided that all

rights of the special share held by Diesel Machinery would be exercised as directed by the shareholder that controls Diesel Machinery. With the dissolution of Diesel Machinery and the sale by China Everbright Holdings of all of its shares in Coomber to Goldman in October 2002, the Diesel Machinery Shareholders Agreement no longer directly affects us.

Table of Contents

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.

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, 2017, 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 2016, 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 2016, certain affiliates of Hong Leong Asia charged us RMB 6.9 million (US$ 1.0 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 2016, 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.

On February 8, 2017, we entered into a loan agreement with HLGE extending the loan for another year from July 2017 to July 2018. During the period from January 1, 2016 to February 28, 2017, the largest amount outstanding under the loan was S$68 million, and, as of February 28, 2017, S$68 million was outstanding under the loan. The interest payable under the loan is 1.835% per annum. For more details, see Item 3. Key Information Risk Factors Risks relating to our investment in HLGE The HLGE Group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us. We have undertaken other significant business transactions with related parties during the fiscal year ended December 31, 2016, as set forth under Note 30 to our consolidated financial statements appearing elsewhere herein.

70

Table of Contents

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.

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.

Table of Contents

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:

Period	US$ High	US$ Low
2012	18.52	11.70
2013	26.39	13.43
2014	24.94	16.60
2015	20.96	10.45
2016	13.98	8.49

Period	US$ High	US$ Low
2015 First Quarter	20.18	18.09
2015 Second Quarter	20.96	16.66
2015 Third Quarter	16.96	11.85
2015 Fourth Quarter	13.84	10.45
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

Period	US$ High	US$ Low
October 2016	11.54	10.43
November 2016	12.74	10.76
December 2016	13.98	12.36
January 2017	14.71	13.25
February 2017	16.00	13.55
March 2017	18.98	15.81

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.

Table of Contents

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

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

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

Table of Contents

Standard for US Domestic Listed Companies	China Yuchai International Limited s Practice
At a minimum, the committee s purpose must be to assist the board in the oversight of the integrity of the company s financial statements, the company s compliance with legal and regulatory requirements, the independent auditor s qualifications and independence and the performance of the company s internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm s annual report describing the firm s internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent governmental inquiry or investigation, and any steps taken to address such issues.	Our audit committee s charter outlines the committee s purpose and responsibilities which are similar in scope to those required of US companies.
The audit committee is also required to assess the auditor s independence by reviewing all relationships between the company and its auditor. It must establish the company s hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company s annual audited financial statements and quarterly financial statements with management and the independent auditors, the company s earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.	Our audit committee assesses the auditor s independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company s hiring guidelines for employees and former employees of the independent auditor. The committee also discusses with management and the independent auditors the Company s annual audited financial statements and quarterly financial statements, the Company s earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.
Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.	The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.
Each listed company must have an internal audit function.	We are a holding company and the majority of business is done at our main subsidiary, Yuchai. 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.
Compensation Committee	
Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.	Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.
The committee must have a written charter that addresses its purpose and responsibilities.	
These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company s annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.	Our compensation committee reviews among other things the Company s general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.

74

Table of Contents

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

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;

75

Table of Contents

(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.

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.

Table of Contents

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).

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.

Table of Contents

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

Exchange Controls

Bermuda Exchange Controls

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

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

China Exchange Controls

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.

Table of Contents

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.

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.

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 annul 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.

79

Table of Contents

Taxation

Bermuda Taxation

There is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by shareholders of the Company other than by shareholders ordinarily resident in Bermuda. Neither the Company nor its shareholders (other than shareholders ordinarily resident in Bermuda) are subject to stamp or other similar duty on the issue, transfer or redemption of Common Stock. The Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, the imposition of such tax shall not be applicable to the Company or to any of its operations, shares, debentures or other obligations of the Company, until March 31, 2035. This assurance does not, however, prevent the imposition of any such tax or duty on such persons as are ordinarily resident in Bermuda and holding such shares, debentures or obligations of the Company or on land in Bermuda leased or let to the Company.

As an exempted company, the Company is required to pay a registration fee in Bermuda based upon its authorized share capital and the premium on the issue of its shares, at rates calculated on a sliding scale not exceeding US$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 December 10, 2009, the Chinese State Administration of Taxation issued the Circular concerning Strengthening the Administration of Enterprise Income Tax on Income Derived from Transfer of Equity of Non-resident Enterprises (Circular 698), which is effective retroactively to January 1, 2008. On February 3, 2015, the Chinese State Administration of Taxation further 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.

Pursuant to Circular 698, income tax may be imposed on the sale of a PRC resident enterprise by a non-resident enterprise (excluding the sale on a public securities market of the equity in a PRC resident enterprise by a non-resident enterprise, where the equity was also acquired on a public securities market by the non-resident enterprise) and, in some cases, on the sale of an offshore intermediary holding company owning a Chinese resident enterprise. The tax authority can adjust the taxable income using reasonable methods, provided that the taxable income is reduced as a result of an equity transfer of a Chinese resident enterprise by a non-resident enterprise to its related parties not applying the arm s length principle. Pursuant to 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.

Table of Contents

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 also 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.

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 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. 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.

Table of Contents

Withholding Tax

On January 9, 2009, the State Administration of Taxation promulgated the Interim Measures for the Administration of Withholding of the Source of Enterprise Income Tax for Non-resident Enterprises, or the Interim Measures, which took effect retroactively on January 1, 2009. In accordance with the Interim Measures, 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 EIT 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 make the withholding registration with the competent tax authority within 30 days after it has signed the first business contract or agreement involving the taxable income with the non-resident enterprise. Thereafter, whenever contracts involving the taxable income are signed, amended, or renewed by the withholding agent and the non-resident enterprise, the withholding agent shall, within 30 days of such signing, amendment or renewal, submit a Contract Filing and Registration Form for EIT Withholding , a copy of the contract and other relevant documents to the competent tax authority for record. In the event that a transfer of domestic equity between non-resident enterprises takes place outside the PRC, the domestic enterprise whose equity is transferred shall file a copy of the equity transfer contract with the competent tax authority when it applies for change of tax registration according to the law. In the event that a non-resident enterprise fails to file and pay the EIT to the Tax authority in manner or within the time frame required by the Interim Measures, it will be ordered by the tax authority to pay the EIT within a limited period of time. If the non-resident enterprise fails to pay the EIT within such period of time, the tax authority may collect and verify information of other PRC income sources and relevant payers of the non-resident enterprise, and issue a tax notice to the relevant payers to pursue the due EIT and fine by the non-resident enterprise from the amount payable by the relevant payers to the non-resident enterprise.

Value-Added Tax

In addition to Chinese income tax, Yuchai is subject to tax on its sales. With effect from January 1, 2009, 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,

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,

Table of Contents

a person that actually or constructively owns 10% or more of the voting stock of the Company,

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, or

a person whose functional currency is not the US dollar.

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.

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 but could, in the case of certain US Holders, constitute general 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.

Table of Contents

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, 2016. 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.

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.

Table of Contents

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 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.

Table of Contents

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, 2016, we had outstanding consolidated loans of RMB 910.4 million (US$132.4 million).

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, 2016 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, 2016 of the Company would increase/decrease by RMB 15.7 million (US$2.3 million) (2015: profit increase/decrease by RMB 6.6 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 2015 and 2016 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.

Table of Contents

The Company s exposures to foreign currency are as follows:

2015	Singapore Dollar RMB	Euro RMB	United States Dollar RMB	Renminbi RMB	Others RMB
			(in thousands)		
Held for trading investment	11,984				
Trade and other receivables	565	407	12,762	32,651	
Cash and bank balances	124,034		2,177	29,520	938
Financial liabilities	(32,163)	(280,924)			
Trade and other payables	(12,978)	(50)	(5,051)	(2,020)	
	91,442	(280,567)	9,888	60,151	938

2016	Singapore Dollar RMB	Euro RMB	United States Dollar RMB	Renminbi RMB	Others RMB
			(in thousands)		
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
US$	12,251	336	(12,749)	4,403	143

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.

	2015 RMB	2016 RMB	2016 US$
		(in thousands)	
Singapore dollar	9,144	8,422	1,225
Euro	(28,057)	231	34
United States dollar	989	(8,765)	(1,275)
Renminbi	6,015	3,027	440

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.

Table of Contents

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

B. Management s 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, 2016 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, 2016. 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, 2016.

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.

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 Chi-Keung Raymond. 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.cyilimited.com. Since adoption of the Company s Code of Business Conduct and Ethics Policy, the Company has not granted any waivers or exemption therefrom.

Table of Contents

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:

	Audit fees RMB	Audit-related fees RMB	Tax fees RMB	Others RMB	Total RMB
			(in thousands)		
2015	3,067[1]			168[3]	3,235
2016	3,056[2]		12	33[3]	3,101

(1) Represents the audit fees billed to the Company (excluding HLGE) by its independent registered public accounting firm for fiscal year 2015. The remaining audit fees of RMB 6.3 million were billed in 2016.

(2) 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 6.5 million had not been billed as of February 28, 2017.

(3) Represents professional service charges billed to the Company (excluding HLGE) by its independent registered public accounting firm for the relevant year for conflict minerals reporting in fiscal years 2015 and 2016 and anti-corruption and anti-bribery training activities in fiscal year 2015.

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.

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 Chi-Keung Raymond. 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.

Table of Contents

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.

Table of Contents

ITEM 18. FINANCIAL STATEMENTS

Index to Financial Statements

China Yuchai International Limited

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Statement of Profit or Loss for years ended December 31, 2014, 2015, and 2016	F-5
Consolidated Statement of Comprehensive Income for years ended December 31, 2014, 2015, and 2016	F-6
Consolidated Statement of Financial Position as of December 31, 2015 and 2016	F-7
Consolidated Statement of Changes in Equity for years ended December 31, 2014, 2015, and 2016	F-9
Consolidated Statement of Cash Flows for years ended December 31, 2014, 2015, and 2016	F-12
Notes to the Consolidated Financial Statements for years ended December 31, 2014, 2015, and 2016	F-15

Table of Contents

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)).
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)).

92

Table of Contents

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.

Table of Contents

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 17, 2017

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).
1.2	Bye-laws of the Registrant (incorporated herein by reference to the Form F-1).
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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)).

Table of Contents

Exhibit Number	Description of Exhibit
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.

Table of Contents

China Yuchai International Limited

China Yuchai International Limited

Consolidated Financial Statements
December 31, 2016

Index

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statement of Profit or Loss	F-5
Consolidated Statement of Comprehensive Income	F-6
Consolidated Statement of Financial Position	F-7
Consolidated Statement of Changes in Equity	F-9
Consolidated Statement of Cash Flows	F-12
Notes to the Consolidated Financial Statements	F-15

Table of Contents

China Yuchai International Limited

Report of Independent Registered Public Accounting Firm

For the financial year ended December 31, 2016

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited China Yuchai International Limited s internal control over financial reporting as of December 31, 2016, 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). 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 the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, China Yuchai International Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

Table of Contents

China Yuchai International Limited

Report of Independent Registered Public Accounting Firm

For the financial year ended December 31, 2016

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss, consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016 of China Yuchai International Limited and our report dated April 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Singapore

April 17, 2017

Table of Contents

China Yuchai International Limited

Report of Independent Registered Public Accounting Firm

For the financial year ended December 31, 2016

The Board of Directors and Shareholders of China Yuchai International Limited

We have audited the accompanying consolidated statements of financial position of China Yuchai International Limited as of December 31, 2016 and 2015, and 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, 2016. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Yuchai International Limited at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Yuchai International Limited s internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Singapore

April 17, 2017

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	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Sales of goods	7	16,345,885	13,634,395	13,542,568	1,969,828
Rendering of services	7	90,257	99,042	122,272	17,785
Revenue	7	16,436,142	13,733,437	13,664,840	1,987,613
Cost of sales (goods)	8.1	(13,104,609)	(10,893,562)	(10,673,521)	(1,552,512)
Cost of sales (services)	8.1	(40,543)	(49,303)	(27,134)	(3,947)
Gross profit		3,290,990	2,790,572	2,964,185	431,154
Other operating income	8.2(a)	121,901	106,931	114,895	16,713
Other operating expenses	8.2(b)	(27,009)	(87,594)	(19,540)	(2,842)
Research and development costs	8.1	(494,594)	(506,955)	(588,007)	(85,528)
Selling, distribution and administrative costs	8.1	(1,598,670)	(1,497,774)	(1,504,360)	(218,816)
Operating profit		1,292,618	805,180	967,173	140,681
Finance costs	8.3	(156,670)	(116,351)	(79,683)	(11,591)
Share of profit of associates	5	956	245	456	66
Share of losses of joint ventures	6	(30,711)	(2,936)	(4,068)	(592)
Gains arising from acquisitions	4	95,192			
Profit before tax		1,201,385	686,138	883,878	128,564
Income tax expense	9	(179,639)	(176,818)	(160,270)	(23,313)
Profit for the year		1,021,746	509,320	723,608	105,251
Attributable to:					
Equity holders of the parent		730,280	341,108	515,737	75,016
Non-controlling interests		291,466	168,212	207,871	30,235
		1,021,746	509,320	723,608	105,251
Earnings per share	10				
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent		19.36	8.81	12.89	1.87
Weighted average number of shares:					
- Basic and diluted		37,720,248	38,712,282	40,016,808	40,016,808

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)

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Profit for the year	1,021,746	509,320	723,608	105,251
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation	11,937	31,533	36,394	5,294
Transfer of reserve on initial equity interest in a joint venture on acquisition	(469)			
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, representing other comprehensive income for the year, net of tax	11,468	31,677	36,394	5,294
Total comprehensive income for the year, net of tax	1,033,214	540,997	760,002	110,545
Attributable to:				
Equity holders of the parent	741,244	375,646	555,355	80,779
Non-controlling interests	291,970	165,351	204,647	29,766
	1,033,214	540,997	760,002	110,545

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	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
ASSETS				
Non-current assets				
Property, plant and equipment	11	4,329,544	4,127,185	600,318
Investment property	12	7,437	7,298	1,062
Prepaid operating leases	13	392,455	379,636	55,220
Goodwill	14	212,636	212,636	30,929
Intangible assets	15	81,826	81,826	11,902
Investment in associates	5	3,379	3,836	557
Investment in joint ventures	6	266,784	176,351	25,651
Deferred tax assets	9	341,728	308,207	44,830
Long-term bank deposits	23	60,000		
Other receivables	21	1,519	1,588	231
		5,697,308	5,298,563	770,700
Current assets				
Inventories	18	1,711,330	1,663,879	242,019
Trade and bills receivables	20	7,178,513	7,057,256	1,026,510
Prepayments		35,532	37,654	5,477
Other receivables	21	348,151	348,711	50,722
Prepaid operating leases	13	12,546	12,546	1,825
Other current assets	19	50,099	35,559	5,172
Cash and cash equivalents	23	3,474,364	3,653,914	531,479
Short-term bank deposits	23	7,195	363,043	52,806
Restricted cash	23	300,564	36,000	5,236
Asset classified as held for sale	22		89,381	13,001
		13,118,294	13,297,943	1,934,247
Total assets		18,815,602	18,596,506	2,704,947

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 (cont d)

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

	Note	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
EQUITY AND LIABILITIES				
Equity				
Issued capital	24	1,955,720	2,059,076	299,502
Preference shares	24	21	21	3
Statutory reserves	26	298,221	299,144	43,512
Capital reserves		30,954	30,954	4,502
Retained earnings		5,012,934	5,306,199	771,811
Other components of equity		(58,233)	(11,560)	(1,681)
Equity attributable to equity holders of the parent		7,239,617	7,683,834	1,117,649
Non-controlling interests		2,190,452	2,301,978	334,833
Total equity		9,430,069	9,985,812	1,452,482
Non-current liabilities				
Interest-bearing loans and borrowings	16(b)	56,509	16,270	2,367
Other liabilities	16(a)	55	70	10
Deferred tax liabilities	9	127,419	115,758	16,838
Deferred grants	17	334,328	315,950	45,956
Other payables	28	115,341	136,772	19,894
		633,652	584,820	85,065
Current liabilities				
Trade and other payables	28	6,076,849	6,845,043	995,643
Interest-bearing loans and borrowings	16(b)	2,399,195	894,136	130,056
Other liabilities	16(a)	59	178	26
Provision for taxation		42,201	47,667	6,933
Provision for product warranty	29	233,577	238,850	34,742
		8,751,881	8,025,874	1,167,400
Total liabilities		9,385,533	8,610,694	1,252,465
Total equity and liabilities		18,815,602	18,596,506	2,704,947

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											
	Issued capital (Note 24) RMB 000	Preference shares (Note 24) RMB 000	Statutory reserves (Note 26) RMB 000	Capital reserves RMB 000	Retained earnings RMB 000	Foreign currency translation reserve (Note 24) RMB 000	Performance shares reserve (Note 24) RMB 000	Other reserve on transaction with non-controlling interests RMB 000	Premium for acquisition of non-controlling interests RMB 000	Total RMB 000	Non-controlling interests RMB 000	Total equity RMB 000
At January 1, 2014	1,724,196	21	300,718	2,932	4,471,075	(106,359)	(85)		(925)	6,391,573	2,042,592	8,434,165
Profit for the year					730,280					730,280	291,466	1,021,746
Other comprehensive income						10,964				10,964	504	11,468
Total comprehensive income for the year					730,280	10,964				741,244	291,970	1,033,214
Shares issued during the year (Note 24)	116,031									116,031		116,031
Transfer to statutory reserves			2,064		(2,064)							
Dividends paid to non-controlling interests											(162,331)	(162,331)
Dividends declared and paid (US$1.20 per share)					(274,524)					(274,524)		(274,524)
Cost of share-based compensation							5,348			5,348		5,348
Liquidation of a subsidiary			(2)							(2)		(2)
Acquisition of non-controlling interests								8,762		8,762	(8,849)	(87)

At December 31, 2014	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

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 (cont d)

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24) RMB 000	Preference shares (Note 24) RMB 000	Statutory reserves (Note 26) RMB 000	Capital reserves RMB 000	Retained earnings RMB 000	Foreign currency translation reserve (Note 24) RMB 000	Performance shares reserve (Note 24) RMB 000	Other reserve on transaction with non-controlling interests RMB 000	Premium paid for acquisition of non-controlling interests RMB 000	Total RMB 000	Non-controlling interests RMB 000	Total equity RMB 000
At January 1, 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						34,538				34,538	(2,861)	31,677
Total comprehensive income for the year					341,108	34,538				375,646	165,351	540,997
Shares issued during the year (Note 24)	115,493									115,493		115,493
Transfer to statutory reserves			1,332		(1,332)							
Dividends paid to non-controlling interests											(108,511)	(108,511)
Dividends declared and paid (US$1.10 per share) (Note 25)					(257,500)					(257,500)		(257,500)
Cost of share-based compensation							10,275			10,275		10,275
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)
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 (cont d)

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

	Attributable to the equity holders of the parent											
	Issued capital (Note 24) RMB 000	Preference shares (Note 24) RMB 000	Statutory reserves (Note 26) RMB 000	Capital reserves RMB 000	Retained earnings RMB 000	Foreign currency translation reserve (Note 24) RMB 000	Performance shares reserve (Note 24) RMB 000	Reserve of asset classified as held for sale (Note 22) RMB 000	(Premium paid for)/ discount on acquisition of non-controlling interests RMB 000	Total RMB 000	Non-controlling interests RMB 000	Total equity 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						39,618				39,618	(3,224)	36,394
Total comprehensive income for the year					515,737	39,618				555,355	204,647	760,002
Shares issued during the year (Note 24)	103,356									103,356		103,356
Transfer to statutory reserves			923		(923)							
Dividends paid to non-controlling interests											(84,450)	(84,450)
Dividends declared and paid (US$0.85 per share) (Note 25)					(221,549)					(221,549)		(221,549)
Cost of share-based compensation							5,301			5,301		5,301
Acquisition of non-controlling interests									1,754	1,754	(8,671)	(6,917)
Reserve attributable to asset classified as held for sale						(22,720)		22,720				
At December 31, 2016	2,059,076	21	299,144	30,954	5,306,199	(43,959)	20,839	22,720	(11,160)	7,683,834	2,301,978	9,985,812
US$ 000	299,502	3	43,512	4,502	771,811	(6,394)	3,031	3,305	(1,623)	1,117,649	334,833	1,452,482

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)

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Operating activities				
Profit before tax	1,201,385	686,138	883,878	128,564
Adjustments to reconcile profit before tax to net cash flows:				
(Written back)/impairment of doubtful debts (net)	(1,595)	32,938	3,696	538
Inventories written down	21,297	59,339	48,202	7,011
Reversal of write-down of inventories	(24,694)	(24,079)	(53,373)	(7,763)
Depreciation of property, plant and equipment	418,675	456,002	465,093	67,650
Depreciation of investment property			248	36
Amortization of prepaid operating leases	12,581	13,433	12,819	1,864
Dividend income from held for trading investment	(989)		(943)	(137)
Impairment of property, plant and equipment	10,433	2,873	3,297	480
Write-off of property, plant and equipment	15	4,931	5	1
Impairment of intangible asset	60,000	26,700	1,131	165
Share of net loss of associates and joint ventures	29,755	2,691	3,612	526
Exchange loss/(gain)	13,044	45,354	(3,407)	(496)
Fair value loss/(gain) on foreign exchange forward contract	2,731	(15,506)	140	20
Loss on disposal of property, plant and equipment	5,984	14,874	14,020	2,039
Gain on disposal of prepaid operating leases	(194)	(2,511)		
Loss on disposal of subsidiary		13,647		
Gain on liquidation of joint venture		(348)		
Finance costs	156,670	116,351	79,683	11,591
Interest income	(45,824)	(41,314)	(56,983)	(8,288)
Fair value loss on held for trading investment	5,250	10,871	243	35
Cost of share-based payments	5,360	10,275	5,301	771
Gains arising from acquisitions	(95,192)			
Write-off of trade and other payables	(42,437)	(9)		
Loss on dilution of equity interest in joint venture		2,848		
Written back of impairment loss on development properties		(2,976)		
Total adjustments	1,732,255	1,412,522	1,406,662	204,607

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 (cont d)

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Changes in working capital				
Decrease in inventories	433,630	168,176	55,299	8,043
(Increase)/decrease in trade and other receivables	(85,712)	732,413	116,487	16,944
(Decrease)/increase in trade and other payables	(1,140,069)	(495,825)	774,134	112,601
(Increase)/decrease in balances with related parties	(137,956)	5,206	56,526	8,222
Decrease in development properties	828			
Cash flows from operating activities	802,976	1,822,492	2,409,108	350,417
Income taxes paid	(267,290)	(135,774)	(133,021)	(19,349)
Net cash flows from operating activities	535,686	1,686,718	2,276,087	331,068
Investing activities				
Acquisition of subsidiaries	(16,690)			
Additional investment in subsidiaries	(87)	(22,499)	(9,076)	(1,320)
Acquisition/additional investment in associates and joint ventures	(462)	(2,591)	(1,255)	(183)
Dividend received from held for trading investment	989		943	137
Dividends received from joint ventures	258	1,190	598	87
Interest received	50,081	46,402	56,734	8,252
Net cash inflow on liquidation of a joint venture		1,763		
Payment for prepaid operating leases	(8,300)			
Proceeds from disposal of prepaid operating leases	2,518	4,505		
Additions of intangible asset	(21,515)			
Proceeds from disposal of property, plant and equipment	16,113	6,602	667	97
Purchase of property, plant and equipment	(660,930)	(397,817)	(351,472)	(51,123)
Proceeds from disposal of subsidiary, net of cash disposed		170,703		
Proceeds from government grants	14,562	39,558	13,639	1,983
Placement of fixed deposits with banks	(97,069)	(66,901)	(290,169)	(42,206)
Withdrawal of fixed deposits from banks	197,513	193,589	7,360	1,071
Net cash flows used in investing activities	(523,019)	(25,496)	(572,031)	(83,205)

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 (cont d)

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Financing activities				
Dividends paid to non-controlling interests	(156,908)	(94,899)	(87,975)	(12,796)
Dividends paid to equity holders of the parent	(158,493)	(142,007)	(118,193)	(17,192)
Interest paid and discounting on bills receivable	(153,617)	(108,279)	(110,774)	(16,113)
Payment of finance lease liabilities	(71)	(85)	(61)	(9)
Proceeds from borrowings	1,924,613	2,534,384	1,255,659	182,641
Repayment of borrowings	(1,939,054)	(2,772,862)	(2,793,206)	(406,285)
Proceeds from issue of bonds		398,777		
Placement of fixed deposits pledged with banks for banking facilities		(300,564)		
Withdrawal of fixed deposits pledged with banks for banking facilities	168,781		300,564	43,718
Net cash flows used in financing activities	(314,749)	(485,535)	(1,553,986)	(226,036)
Net (decrease)/increase in cash and cash equivalents	(302,082)	1,175,687	150,070	21,827
Cash and cash equivalents at January 1	2,596,536	2,291,345	3,474,364	505,362
Effect of exchange rate changes on balances in foreign currencies	(3,109)	7,332	29,480	4,290
Cash and cash equivalents at December 31	2,291,345	3,474,364	3,653,914	531,479

Significant non-cash investing and financing transactions

For the years ended December 31, 2014, 2015 and 2016, certain customers settled their debts with trade bills amounting to RMB 14,117 million, RMB 12,032 million and RMB 12,203 million (US$1,775 million) respectively. These outstanding trade bills were classified as bills receivables in the financial statements.

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

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, 2016 were authorized for issue in accordance with a resolution of the directors on April 17, 2017. China Yuchai International Limited is a limited company incorporated under the laws of Bermuda whose shares are publicly traded. The registered office of the Company is 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 incorporated under the laws of Bermuda on April 29, 1993. The Company was established to acquire a controlling financial interest in Guangxi Yuchai Machinery Company Limited, 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), a state-owned enterprise, owns 22.09% of the issued share capital of Yuchai (State Shares of Yuchai).

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

Yuchai established three direct subsidiaries, Guangxi Yuchai Machinery Monopoly Development Co., Ltd. (YMMC), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited (YAMC) and Yuchai Express Guarantee Co. Ltd (YEGCL). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As YEGCL is a non-core business of the Group, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL to one of the subsidiaries of State Holding Company for a consideration of RMB 85.8 million, and resulted in a loss of RMB 10.9 million. In October 2015, Yuchai acquired 2.86% of equity interest in YAMC from State Holding Company with a purchase consideration of RMB 4.2 million. As at December 31, 2016, Yuchai held an equity interest of 71.83% and 100% respectively in YMMC and YAMC.

In July 2015, 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. 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 at December 31, 2015 and 2016, YMMC had direct controlling interests in 30 subsidiaries which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC.

In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd (Xiamen Yuchai). This subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, Fujian province in the PRC. In September 2015, Yuchai disposed of Xiamen Yuchai to consolidate operations back to Yulin City. See Note 4 for transaction details.

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

In August 2012, Yuchai established a wholly-owned subsidiary, Guangxi Yuchai Accessories Manufacturing Company Limited (GYAMC). YAMC has shifted the business operations to GYAMC since November 2015.

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

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 (cont d)

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

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

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

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

On May 22, 2012, further to discussion between Yuchai, Geely and Yinlun, in order to streamline the operations of both joint venture companies and to ensure that Yuchai s resources and costs are prudently allocated, a share swap agreement had been entered into between Yuchai, Geely and Yinlun such that Yuchai exits from Zhejiang Yuchai and focuses only on Jining Yuchai. The share swap involved Yuchai transferring its 52% shareholding in Zhejiang Yuchai to Yinlun, and Yinlun transferring its 18% shareholding in Jining Yuchai to Yuchai. Jining Yuchai has paid Zhejiang Yuchai a total consideration of RMB 24.8 million which Zhejiang Yuchai had previously paid to Zhejiang Haoqing Manufacturing Co., Ltd. in respect of development of technology for 4D20 diesel engines. Upon the completion of the share swap on June 7, 2012, Yuchai holds a 70% shareholding in Jining Yuchai with Geely maintaining its 30% shareholding in Jining Yuchai. The technology for the 4D20 diesel engines purchased from Geely is entirely owned by Jining Yuchai. The share swap between Yuchai and Yinlun resulted in a cash payment of RMB 25 million from Yinlun to Yuchai. Management considered that terms and conditions of these two arrangements and their economic effects and accounted for these transactions as a single transaction.

On September 28, 2014, Yuchai transferred its entire 70% shareholding interest in Jining Yuchai to an independent third party (the Purchaser) for a consideration of RMB 1.00 dollar. Geely 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.

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 2015 and 2016, the management agreement has been renewed and extended for one more year.

According to the terms of the agreements, Yuchai has an existing arrangement to acquire the 100% shareholding interest in Jining Yuchai. In the event Yuchai exercises this irrevocable option to acquire all shareholding in Jining Yuchai and other rights that currently give the entity access to the returns, Yuchai will potentially obtain 100% shareholding interest of Jining Yuchai. Accordingly, the Group recorded a transaction with non-controlling interest for the deemed acquisition of 30% shareholding interest in Jining Yuchai. The difference of RMB 36,673 between the consideration and the carrying value of the additional interest acquired has been recognized as discount on acquisition of non-controlling interests within 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)

1. Corporate information (cont d)

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

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

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.

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

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

On September 4, 2014, Yuchai, pursuant to an Equity Transfer Agreement entered into with Caterpillar, obtained 49% of equity interest in Yuchai Remanufacturing from Caterpillar. Upon the completion of the equity transfer transaction, Yuchai became legal and beneficial owner of 100% of the equity interest in Yuchai Remanufacturing. From the date of acquisition, Yuchai began to consolidate the financial results of Yuchai Remanufacturing.

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

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

In October 2014, Jiusi, Jirui United and Yuchai agreed to Jiusi transferring 5% of its shareholding interest in Y & C to Jirui United. As a result, Jirui United s shareholding interest in Y & C increased to 50%.

Yuchai and Jirui United hold joint control in governing the financial and operating policies of the joint venture, and share the financial results of Y & C based on respective shareholding percentage accordingly.

1.3 Investment in Thakral Corporation Ltd.

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

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

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

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

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 (cont d)

1.3 Investment in Thakral Corporation Ltd. (cont d)

In 2013, the Group further disposed of 116,284,000 shares in TCL in the open market at a total consideration of S$4.3 million, its shareholding interests in TCL decreased from 12.2% to 7.7% as of December 31, 2013.

On April 1, 2015, TCL proposed to undertake a share consolidation exercise to consolidate every 20 ordinary shares in the capital of TCL into 1 ordinary share. The share consolidation exercise was completed on May 11, 2015. Upon completion of the share consolidation exercise, the Group held 10,122,667 ordinary shares of TCL. As of December 31, 2015 and 2016, the Group s shareholding interests in TCL remained at 7.7%.

1.4 Investment in HL Global Enterprises Limited

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

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

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

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

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

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

ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust.

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

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

On March 2, 2015, HLGE proposed to undertake a share consolidation exercise to consolidate every 10 ordinary shares in the capital of HLGE into 1 ordinary share. The share consolidation exercise was completed on May 14, 2015. Upon completion of the share consolidation exercise, the Group held 47,107,707 ordinary shares of HLGE.

As of December 31, 2015 and 2016, the Group s shareholding interest in HLGE remains at 50.2%.

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.

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

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.

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, 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

The contractual arrangement with the other vote holders of the investee

Rights arising from other contractual arrangements

The Group s voting rights and potential voting rights

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

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

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

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

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

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

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.

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)

(a) Business combinations and goodwill (cont d)

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.

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

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

(b) Investments in associates 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 as Share of profit of associates and Share of losses of joint ventures in the statement of profit or loss.

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 (cont d)

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

(c) Current versus non-current classification

The Group presents assets and liabilities in 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.

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

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)

(d) Fair value measurement (cont d)

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

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

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.

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.

For the US Dollar convenience translation amounts included in the accompanying consolidated financial statements, the RMB equivalent amounts have been translated into US Dollar at the rate of RMB 6.8750 = US$1.00, the rate quoted by the People s Bank of China (PBOC) at the close of business on February 28, 2017. No representation is made that the RMB amounts could have been, or could be, converted into US Dollar at that rate or at any other rate prevailing on February 28, 2017 or any other date.

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.

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)

(f) Revenue recognition (cont d)

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.

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

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.

(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.

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)

(h) Taxes (cont d)

Deferred tax

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

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

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

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

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

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

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

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

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

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

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.

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. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. 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.

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)

(i) Non-current assets held for sale (cont d)

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.

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

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.

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)

(l) Investment properties (cont d)

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

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

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 37,301 and RMB 26,815 (US$3,900) for the years ended December 31, 2015 and 2016 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, and is recorded in cost of sales. During the period of development, the asset is

tested for impairment annually. As of December 31, 2014, 2015 and 2016, capitalized development expenditures are not amortized because the intangible asset has not been completed and is not available for use or sale.

(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

Held-to-maturity investments

Available-for-sale financial assets

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)

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

Subsequent measurement (cont d)

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 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, 2015 and 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)

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)

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 does not have AFS financial assets in 2015 and 2016.

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.

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.

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)

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

Impairment of financial assets (cont d)

Financial assets carried at amortized cost (cont d)

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.

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.

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)

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

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).

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.

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.

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)

(q) Impairment of non-financial assets (cont d)

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 bank balances comprise cash at banks and on hand and short-term deposits with insignificant risk of changes in value.

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

(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.

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.

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)

(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 12 to 36 months) or mileage (generally 50,000 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.

(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 other capital reserves 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.

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)

(w) Share-based payments (cont d)

Equity-settled transactions (cont d)

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 realisable 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 realisable 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.

2.4 Changes in accounting policy and disclosures
New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The Group has not early adopted any standard, interpretation or amendment that has been issued but is 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 2016, 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:

IFRS 14 ***Regulatory Deferral Accounts***

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity s rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 10, IFRS 12 and IAS 28 ***Investment Entities: Applying the Consolidation Exception***

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

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)

2.4 Changes in accounting policy and disclosures (cont d)

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

The materiality requirements in IAS 1

That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated

That entities have flexibility as to the order in which they present the notes to financial statements

That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group,

given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 ***Agriculture: Bearer Plants***

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27*: Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group s consolidated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

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)

2.4 Changes in accounting policy and disclosures (cont d)

IFRS 7 *Financial Instruments: Disclosures*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on 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 does not apply hedge accounting. During 2016, the Group performed a preliminary assessment of IFRS 9 which is subject to changes arising from a more detailed ongoing analysis.

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

(a) Classification and measurement

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under IFRS 9.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model 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 loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group expects an increase in the impairment loss allowance due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

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)

2.5 Standards issued but not yet effective (cont d)

Transition

The Group plans to adopt the new standard on the required effective date without restating prior periods information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

During 2016, the Group performed a preliminary assessment of IFRS 15 which is subject to changes arising from a more detailed ongoing analysis. The Group s major businesses are manufacturing, assembling, and selling of diesel engines and related products.

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

(a) Variable consideration

Contracts with customers provide trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception. IFRS 15 requires the estimated variable consideration to be constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur to prevent over-recognition of revenue. The Group continues to assess individual contract to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(b) Warranty obligations

The Group provides warranties for both general repairs and maintenance services in its contracts with customers. For general repairs, the Group expects that 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, the Group expects that such warranties will be service-type warranties. IFRS 15 requires the Group to defer an allocated amount, based on a relative stand-alone selling price allocation, which, in most cases, will increase judgement and complexity. The Group continues to assess individual warranty contracts to determine the allocated amount to be deferred. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(c) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increase the details of disclosures required in the Group s financial statements.

Transition

The following practical expedients are available when applying IFRS 15 retrospectively.

For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.

For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and

For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

identifying the satisfied and unsatisfied performance obligations;

determining the transaction price; and

allocating the transaction price to the satisfied and unsatisfied performance obligations.

For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

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)

2.5 Standards issued but not yet effective (cont d)

Transition (cont d)

The Group plans to adopt the new standard on the required effective date using the full retrospective method and apply all the practical expedients available for full retrospective approach under IFRS 15 as listed above. The Group is currently performing a detailed analysis under IFRS 15 to determine its election of the practical expedients and to quantify the transition adjustments on its financial statements.

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.

IAS ***7 Disclosure Initiative Amendments to IAS 7***

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB s Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 ***Recognition of Deferred Tax Assets for Unrealised 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.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have material impact to the Group.

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, all the share options outstanding as at December 31, 2016 will vest 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.

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)

2.5 Standards issued but not yet effective (cont d)

IFRS 16 *Leases* (cont d)

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 is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

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 the new insurance contracts standard that the IASB is developing to replace 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 recognise 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.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

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

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)

2.5 Standards issued but not yet effective (cont d)

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (cont d)

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.

Annual improvements 2014-2016 cycle

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 organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

(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.

AIP 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.

The amendments are effective from January 1, 2017 and must be applied retrospectively.

These amendments are not expected 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:

Operating lease commitments Group as lessor

The Group has leased out some of its assets, including surplus office and manufacturing buildings. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the assets and the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, that it retains all the significant risks and rewards of ownership of these assets and accounts for the contracts as operating leases.

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)

Cash and cash equivalents

The Group s cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. To determine whether a fixed deposit meets the definition of cash and cash equivalents, the Group considers factors such as its intention to hold the fixed deposit to meet short-term cash requirements and maturity and terms of such deposit. The carrying amount of cash and cash equivalents as at December 31, 2015 and 2016 are disclosed in Note 23.

Consolidation of a structured entity

As discussed in Note 1.2(a) above, on July 1, 2014, pursuant to the Equity Transfer Agreement entered into between Yuchai and an independent third party (the Purchaser), Yuchai disposed of its equity interest in Jining Yuchai amounting to RMB 105 million (representing 70% of Jining Yuchai s total share capital), for a consideration of RMB 1.00 dollar. Geely also entered into an agreement to dispose of their entire stake in Jining Yuchai to the Purchaser on June 18, 2014. In connection with the equity transfer transaction, Yuchai and the Purchaser entered into a Management Agreement on October 13, 2014. In accordance with the terms of the Management Agreement, the Purchaser appoints Yuchai to direct Jining Yuchai s operating activities, manage Jining Yuchai s assets and employees, and the Purchaser, in return, will pay Yuchai RMB 240 per annum for the management services rendered. On the same day, Yuchai, Yulin Hotel, the Purchaser and Jining Yuchai also entered into a Loan Agreement. In this Loan Agreement, Yuchai and Yulin Hotel agreed to extend a loan facility of RMB 70 million to Jining for tenure of two years from the date of the agreement, solely for Jining s daily operation purpose. In addition, Yuchai has the right to appoint the sole director and legal representative of Jining Yuchai. In 2016, Yuchai and Yulin Hotel agreed to further extend the loan facility to Jining Yuchai.

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 continues to be consolidated in the Group s consolidated financial statements.

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, 2015 and 2016 are RMB 341,728 and RMB 308,207 (US$44,830) respectively. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by RMB 189,589 (US$27,577) for year ended December 31, 2016 (2015: RMB 199,511).

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.

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)

3.2 Estimates and assumptions (cont d)

Allowance for doubtful accounts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amounts of allowance for doubtful accounts as of December 31, 2015 and 2016 were RMB 55,950 and RMB 54,634 (US$7,947) respectively.

Inventory provision

Management reviews the inventory listing on a periodic basis. This review involves comparison of the carrying value of the inventory items with the respective net realizable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. The carrying amounts of inventory provision as at December 31, 2015 and 2016 were RMB 132,306 and RMB 126,796 (US$18,443) 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, 2015 and 2016 were RMB 233,577 and RMB 238,850 (US$34,742) 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 provision for withholding tax payable as of December 31, 2015 and 2016 are RMB 113,805 and RMB 103,347 (US$15,032) 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	
		31.12.2015 %	31.12.2016 %
Guangxi Yuchai Machinery Company Limited	People s Republic of China	76.4	76.4
Guangxi Yuchai Accessories Manufacturing 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 Yulin Hotel Company Limited	People s Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited [(i)]	People s Republic of China		
Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (Yuchai Remanufacturing)	People s Republic of China	76.4	76.4
HL Global Enterprises Limited	Singapore	50.2	50.2

Note:

(i) On September 28, 2014, Yuchai disposed its 70% equity interest in Jining Yuchai. Subsequently, through contractual arrangements, Yuchai obtained 100% control in Jining Yuchai. For details, please refer to Note 1.2(a).

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

	31.12.2014	31.12.2015	31.12.2016
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%

	31.12.2014	31.12.2015	31.12.2016	31.12.2016
	RMB 000	RMB 000	RMB 000	US$ 000
Accumulated balances of material NCI				
Yuchai		2,005,334	2,100,909	305,587
Profit allocated to material NCI				
Yuchai	248,789	129,088	171,353	24,924

Dividends paid to material NCI				
Yuchai	105,991	100,412	83,677	12,171

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

	31.12.2014 Yuchai
	RMB 000
Summarized statement of comprehensive income	
Revenue	16,387,356
Profit for the year, representing total comprehensive income for the year	1,054,637
Attributable to NCI	248,789
Summarized statement of cash flows	
Operating	600,451
Investing	(603,771)
Financing	(480,896)
Net decrease in cash and cash equivalents	(484,216)

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)

	31.12.2015 Yuchai RMB 000
Summarized statement of financial position	
Current assets	12,510,033
Non-current assets, excluding goodwill	5,174,416
Goodwill	212,636
Current liabilities	(8,717,191)
Non-current liabilities	(466,478)
Net assets	8,713,416
Total equity	8,713,416
Attributable to NCI	2,005,334
Summarized statement of comprehensive income	
Revenue	13,671,931
Profit for the year, representing total comprehensive income for the year	547,216
Attributable to NCI	129,088
Summarized statement of cash flows	
Operating	1,742,989
Investing	(33,515)
Financing	(659,691)
Net increase in cash and cash equivalents	1,049,783

	31.12.2016 Yuchai	
	RMB 000	US$ 000
Summarized statement of financial position		
Current assets	12,448,174	1,810,644
Non-current assets, excluding goodwill	4,876,773	709,349
Goodwill	212,636	30,929
Current liabilities	(7,957,306)	(1,157,426)
Non-current liabilities	(461,712)	(67,158)
Net assets	9,118,565	1,326,338

Total equity	9,118,565	1,326,338
Attributable to NCI	2,100,909	305,587
Summarized statement of comprehensive income		
Revenue	13,598,487	1,977,962
Profit for the year, representing total comprehensive income for the year	726,379	105,655
Attributable to NCI	171,353	24,924
Summarized statement of cash flows		
Operating	2,329,367	338,817
Investing	(293,477)	(42,688)
Financing	(1,697,173)	(246,862)
Net increase in cash and cash equivalents	338,717	49,267

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)

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 3,270,182 (US$475,663) (2015: RMB 2,928,741) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

Acquisition of subsidiaries in 2014

(i) On May 27, 2014, Augustland Sdn Bhd, the wholly-owned subsidiary of HLGE, entered into a sale and purchase agreement to purchase the remaining 55% issued ordinary shares and preference shares in the capital of Augustland Hotel Sdn Bhd (AHSB), which owns a hotel in Malaysia, from Amcorp Leisure Holdings Sdn and Hotel Equatorial (M) Sdn Bhd. Following the completion of the acquisition on July 8, 2014, AHSB becomes a wholly-owned subsidiary of HLGE.

The acquisition allows HLGE to expand and strengthen its existing core business of hospitality operations. The control of the acquiree was obtained through the acquisition of 55% equity interest from its joint venture partners.

(ii) On September 4, 2014, Yuchai, pursuant to an Equity Transfer Agreement entered into with Caterpillar, obtained 49% of equity interest in Yuchai Remanufacturing from Caterpillar. Upon the completion of the equity transfer transaction, Yuchai became legal and beneficial owner of 100% of the equity interest in Yuchai Remanufacturing.

The acquisition enables Yuchai to have full ownership and control of Yuchai Remanufacturing which will bring significant advantages from the integration of the remanufacturing business with Yuchai s manufacturing operations.

Assets acquired and liabilities assumed

Upon acquisition of the remaining equity interest in the above entities, the Group re-measured the previously held equity interests at fair value on acquisition date, with the resulting gain or loss recognized in the statement of profit or loss.

The fair value of the identifiable assets and liabilities at the acquisition dates were:

	AHSB RMB 000	Yuchai Remanufacturing RMB 000	Total RMB 000
Assets			
Property, plant and equipment	106,738	92,923	199,661

Prepaid operating lease		28,609	28,609
Inventories	416	16,958	17,374
Trade and other receivables	2,485	11,999	14,484
Cash and cash equivalents	10,993	3,794	14,787
	120,632	154,283	274,915
Liabilities			
Trade and other payables	(23,852)	(19,179)	(43,031)
Interest-bearing loans and borrowings	(40,841)	(53,812)	(94,653)
Deferred grant		(6,300)	(6,300)
Other liabilities	(253)		(253)
Preference shares	(9,068)		(9,068)
	(74,014)	(79,291)	(153,305)
Total identifiable net assets at fair value	46,618	74,992	121,610
Less: Fair value of equity interest in subsidiaries held by the Group immediately before the acquisitions	(21,266)	(38,247)	(59,513)
	25,352	36,745	62,097
Less: Consideration transferred excluding preference shares			
Cash consideration	31,477	*	31,477
Less: Preference shares	(9,068)		(9,068)
	22,409		22,409
Negative goodwill recognized in the statement of profit or loss	2,943	36,745	39,688

* Cash consideration is immaterial.

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 subsidiaries in 2014 (cont d)

Trade and other receivables acquired

The carrying amounts of the acquired receivables reasonably approximate their fair value. At the acquisition date, it is expected that the full contractual amount of the trade and other receivables, expect for RMB 312 of allowance for doubtful accounts that has already been provided, can be collected.

The effect of the acquisitions of subsidiaries on cash flows is as follows:

	AHSB RMB 000	Yuchai Remanufacturing RMB 000	Total RMB 000
Consideration settled in cash	31,477		31,477
Less: Cash and cash equivalents of subsidiaries acquired	(10,993)	(3,794)	(14,787)
Net cash outflow / (inflow) on acquisitions	20,484	(3,794)	16,690

Gains on re-measuring previously held equity interests in subsidiaries to fair value at acquisition dates are as follows:

	AHSB RMB 000	Yuchai Remanufacturing RMB 000	Total RMB 000
Fair value of initial equity interest	21,266	38,247	59,513
Share of carrying amount	(3,423)	(10,143)	(13,566)
Transfer of reserves on initial equity interest in joint venture on acquisition	469		469
Share of carrying amount immediately before acquisitions	(2,954)	(10,143)	(13,097)
Fair value gain on initial equity interest	18,312	28,104	46,416

Gain on deemed settlement of pre-existing contractual relationship

A gain of RMB 9,088 related to deemed settlement of pre-existing contractual relationship was recognized in the Gains arising from acquisitions in the Group s statement of profit or loss for the year ended December 31, 2014.

Gains arising from acquisition of subsidiaries are summarized as follows:

	AHSB RMB 000	Yuchai Remanufacturing RMB 000	Total RMB 000
Negative goodwill	2,943	36,745	39,688
Fair value gain on existing interests	18,312	28,104	46,416
Gain on de-recognition of liabilities	9,088		9,088
Gains arising from acquisitions	30,343	64,849	95,192

The gains arising from acquisition relating to AHSB of RMB 30,343 arose from the acquisition of the remaining 55% stake from Amcorp Leisure Holdings Sdn. Bhd. and Hotel Equatorial (M) Sdn Bhd. The consideration was arrived at on a willing-buyer and willing-seller basis taking into considerations of the valuations commissioned by the seller and buyer, respectively. The Group believes that it is part of the business rationalization plan of the seller to reduce its involvement in Cameron Highlands, Malaysia as a new hotel is being built at Cameron Highlands.

The gains arising from acquisition relating to Yuchai Remanufacturing of RMB 64,849 arose from acquisition of the remaining 49% stake from Caterpillar (China) Investment Co. Ltd. The consideration was arrived at on a willing-buyer and willing-seller basis. The Group believes that it is part of the business rationalization plan of the seller to reduce its joint venture activities in the PRC.

Impact of the acquisition on profit or loss

From the acquisition date, AHSB has contributed RMB 21,247 of revenue and gain of RMB 4,181 to profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue would have been RMB 16,455,581 and profit before tax for the Group would have been RMB 1,202,984.

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 subsidiaries in 2014 (cont d)

Impact of the acquisition on profit or loss (cont d)

From the acquisition date, Yuchai Remanufacturing has contributed RMB 12,069 of revenue and loss of RMB 14,305 to profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue would have been RMB 16,461,480 and profit before tax for the Group would have been RMB 1,189,468.

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:

	31.12.2015 RMB 000
Property, plant and equipment (Note 11)	66,597
Land use rights (Note 13)	17,661
Inventories	6,354
Trade receivables	110,681
Other receivables, deposits and prepayments	970
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
Loss on disposal of a subsidiary (Note 8.2(b))	(13,647)
Total consideration	189,500
Cash and cash equivalents of the subsidiary	(18,797)
Net cash inflow on disposal of the subsidiary	170,703

Acquisition of subsidiary in 2016

On December 20, 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 is not material.

Goodwill arising from the acquisition of RMB 1,131 (US$165) 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)

5. Investment in associates

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Unquoted equity shares, at cost	4,642	4,642	675
Share of post-acquisition reserves			
At January 1	(1,467)	(1,263)	(184)
Share of results, net of tax	245	456	66
Share of foreign currency translation	(41)	1	
At December 31	(1,263)	(806)	(118)
Carrying amount of the investment	3,379	3,836	557

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group s effective equity interest 31.12.2015 %	31.12.2016 %
Held by subsidiaries				
Sinjori Sdn. Bhd. [(i)]	Property investment and development	Malaysia	14.0	14.0
Guangxi Yuchai Quan Xing Machinery Co., Ltd. (Quan Xing[(ii)])	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)[(iii)]	Property management	People s Republic of China	22.9	22.9

Note:

(i) The Group has significant influence in this entity through HLGE who holds effective equity interests of 28% interest in this entity.
(ii) The Group has significant influence in this entity through YAMC who holds direct equity interests of 20% interest in this entity.

(iii) The Group has significant influence in this entity through YAMC who holds direct equity interests of 30% interest in this entity.

The summarized financial information of the associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	31.12.2014		
	Quan Xing RMB 000	Property Management RMB 000	Total RMB 000
Revenue	63,113	35,976	99,089
Profit for the year, representing total comprehensive income for the year	442	2,908	3,350
Group s share of profit of significant associate	88	872	960
Group s share of loss of other associates, representing the Group s share of total comprehensive income of other associates			(4)
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year			956

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 (cont d)

	31.12.2015 Property		
	Quan Xing RMB 000	**Management RMB 000**	**Total RMB 000**
Current assets	30,219	12,635	42,854
Non-current assets	294	1,648	1,942
Current liabilities	(22,973)	(9,003)	(31,976)
Equity	7,540	5,280	12,820
Proportion of the Group s ownership	20%	30%	
Carrying amount of significant associate	1,508	1,584	3,092
Carrying amount of other associates			287
Carrying amount of investment in associates			3,379
Revenue	55,305	34,581	89,886
Profit for the year, representing total comprehensive income for the year	368	587	955
Group s share of profit of significant associate	74	176	250
Group s share of loss of other associates, representing the Group s share of total comprehensive income of other associates			(5)
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year			245

	31.12.2016 Property			
	Quan Xing RMB 000	**Management RMB 000**	**Total RMB 000**	**Total US$ 000**
Current assets	31,623	13,340	44,963	6,540
Non-current assets	251	1,646	1,897	276
Current liabilities	(22,413)	(9,449)	(31,862)	(4,634)
Equity	9,461	5,537	14,998	2,182

Proportion of the Group s ownership	20%	30%		
Carrying amount of significant associates	1,892	1,661	3,553	517
Carrying amount of other associates			283	40
Carrying amount of investment in associates			3,836	557
Revenue	53,582	31,379	84,961	12,358
Profit for the year, representing total comprehensive income for the year	1,919	255	2,174	316
Group s share of profit of significant associates	384	77	461	67
Group s share of loss of other associates, representing the Group s share of total comprehensive income of other associates			(5)	(1)
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year			456	66

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

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Unquoted equity shares, at cost			
At January 1	451,758	452,797	65,861
Addition	2,591	1,255	183
Acquisition as subsidiaries		(2,436)	(354)
Reclassified to asset held for sale [(ii)]		(217,473)	(31,632)
Dissolved	(1,552)		
At December 31	452,797	234,143	34,058
Share of post-acquisition reserves and impairment losses			
At January 1	(179,542)	(186,013)	(27,056)
Share of results, net of tax [(i)]	(2,936)	(4,068)	(592)
Dividend received	(1,190)	(598)	(87)
Others	698	3,302	480
Translation adjustment	(195)	(80)	(12)
Acquisition as subsidiaries		1,573	229
Reclassified to asset held for sale [(ii)]		128,092	18,631
Losses in dilution in shareholding interest	(2,848)		
At December 31	(186,013)	(57,792)	(8,407)
Carrying amount of the investment	266,784	176,351	25,651

Note:

(i) Share of results, net of tax is composed of:

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Share of joint venture losses	(27,907)	(22,064)	(3,601)	(524)
Reversal of impairment of investment in joint ventures		21,932		
Fair value adjustments arising from purchase price allocation	(2,804)	(2,804)	(467)	(68)
Share of results, net of tax	(30,711)	(2,936)	(4,068)	(592)

(ii) Since February 23, 2016, the investment in Copthorne Hotel Qingdao Co., Ltd has been reclassified as asset held for sale in view of proposed disposal. (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	Percentage of interest held	
			31.12.2015 %	31.12.2016 %
Held by subsidiaries				
Copthorne Hotel Qingdao Co., Ltd. (Copthorne Qingdao)	Owns and operates a hotel in Qingdao, PRC	People s Republic of China	60	60
HL Heritage Sdn. Bhd. (HL Heritage)	Property development and property investment holdings	Malaysia	60	60
Shanghai Hengshan Equatorial Hotel Management Co., Ltd. (SHEHM)	Hotel and property management	People s Republic of China	49	49
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	45	45
Guangxi Yineng IOT Science & Technology Co., Ltd. (Guangxi Yineng)	Design, development, management and marketing of an electronic operations management platform	People s Republic of China	20	20
YC Europe Co., Limited. (YC Europe[(i)])	Sales and after-sales service for diesel engines, gas engines and related components and parts	Hong Kong	35	

Note:

(i) On December 20, 2016, Yuchai had acquired an additional 32.5% equity interest in YC Europe through share allotment transfer. As a result, YC Europe became a subsidiary of the Group. For details, please refer to Note 4.

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

In 2014, the Group performed impairment evaluation of its investments and no impairment was required. In the same year, the Group acquired the remaining 49% equity interest in Yuchai Remanufacturing and it became a wholly-owned subsidiary of the Group. Purchase price allocation exercise was performed based on third party valuation and the assets and liabilities of Yuchai Remanufacturing were stated based on its fair value on acquisition date.

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 estimates 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, 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:

	31.12.2014			
	Yuchai		Copthorne	
	Y & C RMB 000	Remanufacturing RMB 000	Qingdao RMB 000	Total RMB 000
Revenue	487,189	25,338	60,547	573,074
Depreciation and amortization	(24,146)	(4,866)	(12,092)	(41,104)
Interest expense	(26,642)	(3,434)	(9,321)	(39,397)
Loss for the year, representing total comprehensive loss for the year	(12,726)	(24,321)	(13,123)	(50,170)
Proportion of the Group s ownership	45%	51%	60%	
Group s share of loss *	(5,727)	(12,404)	(7,874)	
Depreciation arising from fair value adjustment during purchase price allocation			(2,804)	
Group s share of loss of significant joint ventures	(5,727)	(12,404)	(10,678)	(28,809)
Group s share of loss of other joint ventures, representing the Group s share of total comprehensive loss of other joint ventures				(1,902)
Group s share of loss for the year, representing the Group s share of total comprehensive loss for the year				(30,711)

* Group s share of loss includes share of loss in Yuchai Remanufacturing from January 1, 2014 to September 3, 2014.

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)

		31.12.2015 Copthorne	
	Y & C RMB 000	**Qingdao RMB 000**	**Total RMB 000**
Non-current assets	638,726	312,885	951,611
Current assets			
- Cash and bank balances	51,634	9,085	60,719
- Others	112,340	2,851	115,191
Total assets	802,700	324,821	1,127,521
Non-current liabilities			
- Interest-bearing loans and borrowings	(40,000)		(40,000)
- Others	(19,102)		(19,102)
Current liabilities			
- Interest-bearing loans and borrowings	(30,000)	(145,181)	(175,181)
- Others	(343,209)	(23,208)	(366,417)
Total liabilities	(432,311)	(168,389)	(600,700)
Equity	370,389	156,432	526,821
Proportion of the Group s ownership	45%	60%	
Group s share of net assets	166,675	93,859	
Cumulative impairment loss		(21,932)	
Reversal of cumulative impairment loss		21,932	
Unrealized profit on transactions between the Group and the joint venture	698		
Carrying amount of significant joint ventures	167,373	93,859	261,232
Carrying amount of other joint ventures			5,552
Carrying amount of the investment in joint ventures			266,784

		31.12.2015 Copthorne	
	Y & C RMB 000	**Qingdao RMB 000**	**Total RMB 000**

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)
Group s share of loss for the year, representing the Group s share of total comprehensive loss for the year			(2,936)

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)

		31.12.2016	
	Y & C RMB 000	Total RMB 000	Total US$ 000
Non-current assets	616,397	616,397	89,658
Current assets			
- Cash and bank balances	99,014	99,014	14,402
- Others	215,246	215,246	31,308
Total assets	930,657	930,657	135,368
Non-current liabilities	(60,382)	(60,382)	(8,783)
Current liabilities			
- Interest-bearing loans and borrowings	(68,800)	(68,800)	(10,007)
- Others	(425,777)	(425,777)	(61,931)
Total liabilities	(554,959)	(554,959)	(80,721)
Equity	375,698	375,698	54,647
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	24,591
Carrying amount of other joint ventures		7,287	1,060
Carrying amount of the investment in joint ventures		176,351	25,651

		31.12.2016		
	Y & C RMB 000	Copthorne Qingdao* RMB 000	Total RMB 000	Total US$ 000
Revenue	553,878	3,674	557,552	81,098
Depreciation and amortization	(22,087)	(2,797)	(24,884)	(3,619)
Interest expense	(14,012)	(1,337)	(15,349)	(2,233)
Profit/(loss) for the year, representing total comprehensive loss for the year	4,531	(6,664)	(2,133)	(310)
Proportion of the Group s ownership	45%	60%		

Group s share of profit/(loss)	2,039	(3,998)		
Depreciation arising from fair value adjustment during purchase price allocation		(467)		
Group s share of profit/(loss) of significant joint ventures	2,039	(4,465)	(2,426)	(353)
Group s share of loss of other joint ventures, representing the Group s share of total comprehensive loss of other joint ventures			(1,642)	(239)
Group s share of loss for the year, representing the Group s share of total comprehensive loss for the year			(4,068)	(592)

* On February 23, 2016, the investment in Copthorne Qingdao was reclassified 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.

Note:

As of December 31, 2016, the Group s share of joint ventures capital commitment that are contracted but not paid was RMB 10,982 (US$1,597) (2015: RMB 37,973).

As of December 31, 2016, the Group s share of joint ventures contingent liabilities was RMB 19,402 (US$2,822) (2015: RMB 112,072) respectively.

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)

According to Qingdao Municipal Government s regulation, all hotels in Qingdao, the People s Republic of China, are required to pay tourism development levy and hotel augmentation levy which are equivalent to 1% of total revenue and 3% of room revenue respectively. According to releases made by the Qingdao Local Taxation Bureau, the tourism development levy and the hotel augmentation levy were withdrawn effective from January 1, 2009 and September 1, 2010 respectively. As at December 31, 2016, the estimated tourism development levy and hotel augmentation levy payable by the Group s joint venture in Qingdao were RMB 3,754 (US$546) (2015: RMB 3,793) and RMB 9,095 (US$1,323) (2015: RMB 9,197) respectively. The joint venture, together with other hotel owners in Qingdao is currently negotiating with the Qingdao Municipal Government to waive such levies. The joint venture is of the view that the authority is unlikely to collect such levies. Hence, the above levies have not been provided in the accounts of the joint venture.

As of December 31, 2016, the Group s share of outstanding bills receivables discounted with banks for which Y & C retained a recourse obligation totalled RMB 1,440 (US$209) (2015: RMB 94,188).

As of December 31, 2016, the Group s share of outstanding bills receivables endorsed to suppliers for which Y & C retained a recourse obligation were RMB 5,113 (US$744) (2015: RMB 4,894).

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 26,437 (US$3,845) (2015: RMB 8,464) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

7. Revenue

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Sale of goods	16,345,885	13,634,395	13,542,568	1,969,828
Rendering of services				
Consisting of:				
Revenue from hotel and restaurant operations	78,815	94,053	110,718	16,104
Revenue from sale of development properties	865			
Rental income	10,577	4,989	11,554	1,681
	90,257	99,042	122,272	17,785
Revenue	16,436,142	13,733,437	13,664,840	1,987,613

8.1 Depreciation and amortization, shipping and handling expenses

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Cost of sales	299,789	319,962	322,289	46,878
Research and development expenses	47,169	58,204	56,812	8,264
Selling, general and administrative expenses	84,298	91,269	99,059	14,409
	431,256	469,435	478,160	69,551

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Selling, general and administrative expenses	208,439	172,865	159,023	23,131

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Interest income	45,824	41,314	56,983	8,288
Dividend income from held for trading investment	989		943	137
Gain on disposal of prepaid operating leases	194	2,511		
Gain on liquidation of joint venture		348		
Government grants	26,151	31,205	41,515	6,039
Fair value gain on foreign exchange forward contract (Note 19)		15,506		
Write-off of trade and other payables	42,437	9		
Written back of impairment loss on development properties		2,976		
Bad debt recovered		4,257		
Others, net	6,306	8,805	15,454	2,249
	121,901	106,931	114,895	16,713

8.2 (b) Other operating expenses

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Loss on disposal of property, plant and equipment	5,984	14,874	14,020	2,039
Loss on disposal of subsidiary		13,647		
Loss on dilution of equity interest in joint venture		2,848		
Foreign exchange loss, net	13,044	45,354	4,006	583
Fair value loss on held for trading investment	5,250	10,871	243	35
Fair value loss on foreign exchange forward contract	2,731		140	20
Goodwill written off			1,131	165
	27,009	87,594	19,540	2,842

8.3 Finance costs

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Bank term loans	66,168	57,212	34,477	5,015
Corporate bonds	49,452	54,116	27,581	4,012
Bills discounting	36,011	1,651	13,068	1,901

Bank charges	5,029	3,364	4,552	662
Finance lease	10	8	5	1
	156,670	116,351	79,683	11,591

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

8.4 Staff costs

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Wages and salaries	836,578	839,288	922,847	134,232
Contribution to defined contribution plans	279,123	297,926	275,703	40,102
Executive bonuses	60,069	32,190	44,921	6,534
Staff welfare	84,123	82,293	94,087	13,685
Cost of share-based payment	5,360	10,275	5,301	771
Others	2,305	9,062	20,340	2,959
	1,267,558	1,271,034	1,363,199	198,283

9. Income tax expense

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

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Current income tax				
Current income tax charge	158,420	104,584	104,149	15,149
Adjustments in respect of current income tax of previous year	(3,746)	(47)	7,175	1,044
Deferred tax				
Relating to origination and reversal of temporary differences	24,965	72,281	48,946	7,120
Income tax expense reported in the statement of profit or loss	179,639	176,818	160,270	23,313

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, 2016, 2015 and 2014 for the following reasons:

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Accounting profit before tax	1,201,385	686,139	883,878	128,564
Computed tax expense of 15%	180,208	102,921	132,582	19,285
Adjustments resulting from:				
Non-deductible expenses	11,310	9,815	7,039	1,024
Tax-exempt income	(14,474)	(5,574)	(178)	(26)
Utilization of deferred tax benefits previously not recognized	(12,408)	(2,001)	(3,157)	(459)

Deferred tax benefits not recognized		61,299	9,045	1,316
Tax credits for research and development expense	(27,024)	(27,087)	(34,482)	(5,016)
Tax rate differential	20,985	24,249	25,321	3,683
(Over)/under provision in respect of previous years current tax	(3,746)	(47)	7,175	1,044
Withholding tax expense	24,175	13,126	16,925	2,462
Others	613	117		
Total	179,639	176,818	160,270	23,313

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

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of profit or loss			
	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Deferred tax liabilities							
Accelerated tax depreciation	(10,894)	(10,521)	(1,530)		(10,852)	373	54
Unremitted earnings from overseas source income	(412)	(437)	(64)			(25)	(3)
Interest receivable	18	(1,453)	(212)			(1,471)	(214)
Derivatives not designated as hedges-foreign exchange forward contract	(2,326)				(2,326)	2,326	338
PRC withholding tax on dividend income [(i)]	(113,805)	(103,347)	(15,032)	(24,175)	(12,549)	(16,628)	(2,419)
	(127,419)	(115,758)	(16,838)	(24,175)	(25,727)	(15,425)	(2,244)
Deferred tax assets							
Impairment of property, plant and equipment	11,881	2,876	418	2,614	409	(9,005)	(1,310)
Write-down of inventories	25,630	21,209	3,085	700	(3,867)	(4,421)	(643)
Allowance for doubtful account receivables	2,144	9,340	1,359		(3,361)	7,196	1,047
Accruals	232,302	185,952	27,048	(17,906)	17,253	(46,350)	(6,742)
Deferred income	60,886	70,931	10,317	(561)	(44,232)	10,045	1,461
Write down of intangible asset				15,000	(15,000)		
Others	8,885	17,899	2,603	(637)	2,244	9,014	1,311
	341,728	308,207	44,830	(790)	(46,554)	(33,521)	(4,876)
				(24,965)	(72,281)	(48,946)	(7,120)

Note:

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000

At January 1	(133,788)	(113,805)	(16,553)
Provision made to consolidated statement of profit or loss	(12,549)	(16,628)	(2,419)
Utilization	32,616	27,107	3,943
Translation differences	(84)	(21)	(3)
December 31	(113,805)	(103,347)	(15,032)

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

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

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate. The Company recognizes 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. As of December 31, 2016, the provision for withholding tax payable was RMB 103,347 (US$15,032) (2015: RMB 113,805). The amount of unrecognised deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be RMB 212,176 (US$:30,862) (2015: RMB198,319).

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)

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Deferred tax assets	341,728	308,207	44,830
Deferred tax liabilities	(127,419)	(115,758)	(16,838)
	214,309	192,449	27,992

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Unutilised tax losses	552,081	515,207	74,939
Unutilised capital allowances and investment allowances	112,312	106,781	15,532
Other unrecognised temporary differences relating to provisions and deferred grants	231,487	224,087	32,594
	895,880	846,075	123,065

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 recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

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 (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Basic earnings per share

The calculation of basic earnings per share is based on:

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share calculations	730,280	341,108	515,737	75,016
Weighted average number of ordinary shares for basic and diluted earnings per share calculations	37,720,248	38,712,282	40,016,808	40,016,808

Diluted earnings per share

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

	31.12.2015	31.12.2016	31.12.2016
Weighted average number of shares issued, used in the calculation of basic earnings per share	37,720,248	38,712,282	40,016,808
Diluted effect of share options			
Weighted average number of ordinary shares (diluted)	37,720,248	38,712,282	40,016,808

In 2016, 530,000 (2015: 570,000; 2014: 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.

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

11. Property, plant and equipment

	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
Cost							
At January 1, 2015	13,861	2,161,715	603,762	4,615,757	183,991	110,378	7,689,464
Additions		19,275	368,620	13,967	17,641	10,387	429,890
Disposal of subsidiary (Note 4)		(82,065)					(82,065)
Disposals		(15,422)		(70,738)	(16,906)	(6,154)	(109,220)
Transfers		229,790	(639,453)	408,845	818		
Write-off		(165)	(4,812)	(5)	(2,045)		(7,027)
Translation difference	(560)	(5,968)		1,994	(2,051)	70	(6,515)
At December 31, 2015 and 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	13,730	2,351,646	336,151	5,049,756	192,461	114,425	8,058,169
Accumulated depreciation and impairment							
At January 1, 2015	531	512,455		2,545,543	104,380	65,713	3,228,622
Charge for the year		79,042		345,977	22,162	8,821	456,002
Disposals of subsidiary (Note 4)		(15,468)					(15,468)
Disposals		(4,392)		(63,720)	(15,147)	(4,485)	(87,744)
Write-off		(64)		(5)	(2,027)		(2,096)
Impairment loss				2,873			2,873
Translation difference	(71)	1,284		694	807	80	2,794
At December 31, 2015 and 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	467	642,286		3,089,199	124,831	74,201	3,930,984
Net book value							
At December 31, 2015	12,841	1,734,303	328,117	2,138,458	71,273	44,552	4,329,544
At December 31, 2016	13,263	1,709,360	336,151	1,960,557	67,630	40,224	4,127,185
US$ 000	1,929	248,634	48,895	285,172	9,837	5,851	600,318

An impairment loss of RMB 3,297 (US$ 480) (2015: RMB 2,873; 2014: RMB 10,433) 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 2014, 2015 and 2016 was due to assets that were not in use.

As of December 31, 2016, property, plant and equipment with a carrying amount of RMB 84,360 (US$12,271) (2015: RMB 90,045) are pledged to secure bank facilities.

Finance leases

The carrying value of property, plant and equipment held under finance leases at December 31, 2016 was RMB 144 (US$21) (2015: RMB 161). Additions during the year include RMB 86 (US$13) (2015: RMB Nil) of property, plant and equipment under finance leases.

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

12. Investment property

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Cost			
At January 1		31,323	4,556
Transfer from development properties	31,323		
Translation difference		453	66
At December 31	31,323	31,776	4,622
Accumulated depreciation			
At January 1		23,886	3,474
Transfer from development properties	23,886		
Charge for the year		248	36
Translation difference		344	50
At December 31	23,886	24,478	3,560
Net carrying amount	7,437	7,298	1,062
Fair value	7,437	10,149	1,476

During the year ended December 31, 2015, the commercial building with carrying amount of RMB 7,437 was transferred from development properties to investment property as this property was leased to third parties to generate rental income.

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 recognised 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

2016	Market comparison and cost method	Comparable price: - Land: RMB 24 to RMB 34 per square foot - Retail: RMB 337 to RMB 847 per square foot	The estimated fair value increases with higher comparable price
2015	Market comparable and investment method	Rental yield of approximately 3% based on valuer s assessment	The estimated fair value increases with higher rental yield

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.

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Current	12,546	12,546	1,825
Non-current	392,455	379,636	55,220
Total	405,001	392,182	57,045

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Cost			
At January 1	556,613	529,577	77,029
Disposals of subsidiary (Note 4)	(24,760)		
Disposals	(2,276)		
At December 31	529,577	529,577	77,029
Accumulated amortization			
At January 1	118,524	124,576	18,120
Charge for the year	13,433	12,819	1,864
Disposals of subsidiary (Note 4)	(7,099)		
Disposals	(282)		
At December 31	124,576	137,395	19,984
Net carrying amount	405,001	392,182	57,045

As of December 31, 2016, prepaid operating leases with a carrying amount of RMB 71,022 (US$10,330) (2015: RMB 74,377) are pledged to secure bank facilities.

14. Goodwill

	RMB 000	US$ 000

Cost		
At January 1, 2015, December 31, 2015 and December 31, 2016	218,311	31,754
Accumulated impairment		
At January 1, 2015, December 31, 2015 and December 31, 2016	5,675	825
Net book value		
At December 31, 2015 and December 31, 2016	212,636	30,929

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.

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:

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Yuchai	212,636	212,636	30,929

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 11.73% (2015: 11.46%). 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% and 6.7% for 2016 and 2015 respectively.

Sensitivity to changes in assumptions

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

Profit from operation A decreased demand can lead to a decline in profit from operation. A decrease in profit from operation by 16.19% (2015: 17.30%) would result in impairment.

Discount rate A rise in pre-tax discount rate to 12.52% (2015: 12.96%) in the Yuchai unit would result in impairment.

Growth rate assumptions Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 5.32% (2015: 4.40%) 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.

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

	Development costs RMB 000
Cost	
At January 1, 2015, December 31, 2015 and December 31, 2016	168,526
Impairment	
At January 1, 2015	60,000
Charge to consolidated statement of profit or loss	26,700
At December 31, 2015 and December 31, 2016	86,700
Net carrying value	
At December 31, 2015	81,826
At December 31, 2016	81,826
US$ 000	11,902

The development costs are related to intellectual property right, technical skills and knowledge of building a new technology of heavy duty diesel engines. The Group has an intangible asset representing technology development costs held by Jining Yuchai with carrying amount of RMB 50,122 (US$7,290) (2015: RMB 50,122).

The Group perform an impairment review on intangible assets when there is a triggering event.

In 2014, the impairment test was triggered when the non-controlling interest disposed of its equity interest to an independent third party at a value below the net asset value of Jining Yuchai. In addition, modification has to be made to the existing technology that would defer the commercial deployment of this technology. As a result, an impairment charge of RMB 60,000 was made in respect of the technology development cost held by Jining Yuchai.

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, 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, which takes into consideration the business outlook for diesel engines industry in China. No further impairment loss was recognised in 2016.

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 and past experience and did not exceed the estimated long-term average growth rate of the business in the PRC market. The recoverable amount of the intangible asset was based on its value in use. The Group used a 15 years forecast, using pre-tax discount rate of

12.98%. The revised 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. In 2015, the Group used a 15-year forecast, from 2016 to 2030 using pre-tax discount rate of 12.34% and revenue growth rate of 11.10% from 2021 to 2026, 6 years after the expected commercial deployment of the technology. Thereafter, the growth rate is at 0% from 2026 to 2030.

If the pre-tax discount rate increased by 1% (2015: 1%) from management estimates, the Group s impairment loss on intangible asset in Jining Yuchai is RMB 2,443 (US$355) (2015: RMB 18,447).

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Derivative not designated as hedges foreign exchange forward contract		140	20
Finance lease liabilities (Note 31)	114	108	16
Total	114	248	36

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Current	59	178	26
Non-current	55	70	10
Total	114	248	36

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

	Effective interest rate %	Maturity	31.12.2015 RMB 000
Current			
Renminbi denominated loans	4.72	2016	2,113,691
Euro denominated loans	0.95	2016	280,922
Malaysian Ringgit denominated loans	6.05	2016	4,582
			2,399,195

Non-current			
Renminbi denominated loans	8.28	2017	3,751
Singapore Dollar denominated loans[(ii)]	2.15	2017	32,138
Malaysian Ringgit denominated loans	6.05	2020	20,620
			56,509

	Effective interest rate %	Maturity	31.12.2016 RMB 000	31.12.2016 US$ 000
Current				
Renminbi denominated loans	3.94	2017	753,750	109,636
USD denominated loans	3.70	2017	104,055	15,135
Singapore Dollar denominated loans[(ii)]	1.81	2017	33,616	4,890
Malaysian Ringgit denominated loans	5.90	2017	2,715	395
			894,136	130,056
Non-current				
Malaysian Ringgit denominated loans	5.90	2020	16,270	2,367

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)

Note:

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

(ii) The loans comprise:

Issuer bank	Facility limit	Usage RMB 000
December 31, 2015		
Bank of Tokyo-Mitsubishi, UFJ Ltd (BOTM)	S$ 30 million	16,069
Sumitomo Mitsui Banking Corporation (Sumitomo)	US$ 30 million	16,069
		32,138
December 31, 2016		
Bank of Tokyo-Mitsubishi, UFJ Ltd	S$ 30 million	16,808
Sumitomo Mitsui Banking Corporation	US$ 30 million	16,808
		33,616
	US$ 000	4,890

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

On May 22, 2015, the Company entered into a three year revolving credit facility agreement with DBS with a uncommitted 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.

S$30.0 million credit facility with BOTM, Singapore Branch

On March 13, 2014, the Company entered into a facility agreement with BOTM to refinance the existing revolving credit facility. The unsecured, multi-currency revolving credit facility has a committed aggregated value of S$30.0 million with three-year duration from March 18, 2014 to March 18, 2017. The facility will be used to finance the Company s long-term general working capital requirements. Among other things, the terms of the facility require that HLA retains ownership of the Company s special share and that the Company remains a consolidated subsidiary of HLA. The terms of the facility also include certain financial covenants with respect to the Company s consolidated 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 consolidated 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, Singapore Branch

On March 12, 2014, the Company entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo for a committed aggregate of US$30.0 million to refinance the US$30.0 million facility that was matured on March 18, 2014. 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 total consolidated net debt (as defined in the agreement) to consolidated tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. The Company has also undertaken to make available to the bank within 180 days after the end of its financial year (beginning with financial year 2007), copies of its audited consolidated accounts as at the end of and for that financial year.

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)

Yuchai RMB 1 billion medium-term notes

Yuchai received approval from China s National Association of Financial Market Institutional Investors (NAFMII) for the issuance of RMB-denominated three-year unsecured medium-term notes (Notes) amounting to RMB 1.6 billion. On May 28, 2013, Yuchai issued the first tranche of the Notes amounting to RMB 1 billion. The par value and issue price of each Note is RMB 100. The fixed annual interest payable on the Notes is 4.69% which is the rate as of May 30, 2013. Subscription to and trading of the Notes is only available in China to institutional investors of China s National Inter-bank Bond Market. The first tranche of the Notes was underwritten by China CITIC Bank Corporation Limited. The proceeds from the issuance of the Notes were used by Yuchai as working capital. The Notes were matured and repaid on May 30, 2016.

Yuchai RMB 2 billion ultra short-term bonds

On April 8, 2015, Yuchai received approval from its board of directors, shareholders and China s National Association of Financial Market Institutional Investors (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 bear a fixed annual interest rate of 4.9% and matured on May 9, 2015. 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 bear a fixed annual interest rate of 3.9%, matured and repaid on June 13, 2016. 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 is valid for two years commencing from February 28, 2015. No new USTB was issued by Yuchai in 2016.

17. Deferred grants

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
At January 1	340,821	360,783	52,478
Received during the year	39,558	13,639	1,983
Released to consolidated statement of profit or loss	(19,596)	(36,533)	(5,314)
At December 31	360,783	337,889	49,147
Current (Note 28)	26,455	21,939	3,191
Non-current	334,328	315,950	45,956
	360,783	337,889	49,147

18. Inventories

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Raw materials	986,051	904,737	131,598
Work in progress	14,499	26,807	3,899
Finished goods	710,780	732,335	106,522
Total inventories at the lower of cost and net realizable value	1,711,330	1,663,879	242,019

Inventories recognized as an expense in Cost of sales are RMB 11,781,032, RMB 9,531,439 and RMB 9,313,436 (US$1,354,682) for the years ended December 31, 2014, 2015 and 2016 respectively.

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 (cont d)

An analysis of the inventory reserve accounts is as follows:

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
At January 1	108,353	132,306	19,244
Inventories written down	59,339	48,202	7,011
Reversal of write-down of inventories	(24,079)	(53,373)	(7,763)
Written off	(11,307)	(339)	(49)
At December 31	132,306	126,796	18,443

The inventories written down and reversal of write-down of inventories recognized as an expense and included in Cost of sales amounted to RMB 3,397, RMB 35,260 and RMB 5,171 (US$752) for the years ended December 31, 2014, 2015 and 2016 respectively. The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2014, 2015 and 2016.

19. Other current assets

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Development properties	22,609	23,378	3,400
Held for trading investment (Note 1.3)	11,984	12,181	1,772
Derivative not designated as hedges foreign exchange forward contract	15,506		
	50,099	35,559	5,172

Foreign exchange forward contract

On December 22, 2015, Yuchai entered into a non-deliverable forward foreign exchange contract (NDF) with Industrial and Commercial Bank of China (ICBC) to purchase Euro 39.1 million at the forward exchange rate (RMB/Euro) of 6.6987 on April 13, 2016. The Group accounted for this NDF at fair value through Other operating income in the statement of profit or loss (Note 8.2(a)).

20. Trade and bills receivables

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Trade receivables (net)	385,801	241,168	35,079
Bills receivable [(i)]	6,792,712	6,816,088	991,431
Total (Note 36)	7,178,513	7,057,256	1,026,510

(i) As of December 31, 2016, bills receivable includes bills receivable from joint venture and other related parties amounted to RMB 45,000 (US$6,545) (2015: RMB 50,000) and RMB 3,968 (US$577) (2015: RMB 2,000) respectively.

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

As of December 31, 2015 and 2016, outstanding bills receivable discounted with banks for which the Group retained a recourse obligation totalled RMB Nil and RMB 817,391 (US$118,893) respectively. All bills receivable discounted have contractual maturities within 12 months at time of discounting.

As of December 31, 2015 and 2016, outstanding bills receivable endorsed to suppliers with recourse obligation were RMB 859,679 and RMB 851,099 (US$123,796) respectively.

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 bills receivables (cont d)

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
At January 1	21,927	51,288	7,460
Charge to consolidated statement of profit or loss	30,192	3,696	538
Written off	(827)	(346)	(50)
Translation differences	(4)	(4)	(1)
December 31	51,288	54,634	7,947

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, 2015 and 2016, gross trade receivables due from a major customer, Dongfeng Automobile Co., Ltd. and its affiliates (the Dongfeng companies) were RMB 19,914 and RMB 34,307 (US$4,990), respectively. See Note 33 for further discussion of customer concentration risk.

		Neither past due nor impaired	Past due but not impaired			
	Total RMB 000		0 90 days RMB 000	91-180 days RMB 000	181-365 days RMB 000	>365 days RMB 000
At 31.12.2016	7,057,256	6,995,511	37,902	12,062	9,654	2,127
At 31.12.2015	7,178,513	6,914,279	161,642	52,442	39,052	11,098

21. Other receivables

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Staff advances	7,853	7,501	1,091
Associates and joint ventures	176,422	182,671	26,570
Other related parties	6,300	10,096	1,469

Interest receivables	7,280	6,775	985
Bills receivable in transit	2,998	29,134	4,238
Others	16,719	10,510	1,529
Impairment losses other receivables[(i)]	(4,662)		
Loans and receivables (Note 36)	212,910	246,687	35,882
Tax recoverable	135,241	102,024	14,840
Total	348,151	348,711	50,722

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

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 (cont d)

Note:

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
At January 1	2,041	4,662	678
Charge to consolidated statement of profit or loss	2,746		
Written off	(125)	(4,662)	(678)
At December 31	4,662		

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Other receivables (non-current) [(i)] (Note 36)	1,519	1,588	231

(i) Non-current other receivables relate to non-trade receivables from joint ventures and associate which are not expected to be settled next 12 months.

22. Asset classified as held for sale
Sales of 60% of the issued ordinary shares in the capital of Copthorne Hotel Qingdao Co., Ltd (CHQ)

The Group s subsidiary company, LKN Investment International Pte Ltd, together with the joint venture partner of CHQ, had on February 23, 2016, listed the entire equity interest in CHQ on the Shanghai United Assets and Equity Exchange for sale and the sale was re-listed on March 28, 2016.

As a result, the investment in CHQ was reclassified as asset held for sale and the Group discontinued the use of equity method to recognize the interest in CHQ. Consequently, the Group only shared the loss incurred by CHQ up to February 23, 2016. As at December 31, 2016, the Group remains committed to the sale of the equity interest in CHQ.

The asset classified as held for sale and the related reserves as at 31 December are as follows:

	31.12.2016 RMB 000	31.12.2016 US$ 000
Asset		
Interests in joint venture, representing asset classified as held for sale	89,381	13,001
Reserve		
Foreign currency translation reserve	22,720	3,305

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Non-current			
Long-term bank deposits [(i)]	60,000		
Current			
Cash and cash equivalents	3,474,364	3,653,914	531,479
Short-term bank deposits [(ii)]	7,195	363,043	52,806
Restricted cash	300,564	36,000	5,236
	3,782,123	4,052,957	589,521
Cash and bank balances	3,842,123	4,052,957	589,521

Note:

(i) In 2015, long-term fixed deposits relate to time deposits with maturity more than 1 year and bear an annual interest rate of 4.03% with banks. These long-term fixed deposits are not considered as cash equivalents. In 2016, there was no long-term deposit placed with bank.

(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, 2016 for the Group ranged from 0.83% to 4.03% (2015: 0.66% to 3.63%). 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 bank deposits and short-term bank deposits) as at December 31, 2016 for the Group ranged from 0.86% to 2.10% (2015: 0.70% to 2.80%).

As of December 31, 2016, the Group has restricted cash of RMB 36,000 (US$5,236) which was used as collateral by the banks for the issuance of bills to suppliers and would mature within 1 year. As at December 31, 2015, the Group has restricted cash of RMB 300,564 which was deposited by Yuchai with ICBC as guarantee of short-term Euro loan granted by the same bank amounting to Euro 39.1 million, equivalent to RMB 275.8 million at annual interest rate of 0.30%. The loan was repaid in April 2016.

As of December 31, 2015 and 2016, the Group had RMB 300,404 and RMB 318,565 (US$46,336) respectively, of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The commitment fees incurred for 2014, 2015 and 2016 were RMB 466, RMB 368 and RMB 392 (US$57) respectively.

Table of Contents

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 reserves

	31.12.2015 thousands	31.12.2016 thousands
Authorized shares		
Ordinary share of par value US$0.10 each	100,000	100,000

	Number of shares	RMB 000
Ordinary shares issued and fully paid		
At January 1, 2015	38,195,706	1,840,227
Issued on July 14, 2015 as dividend payment (Note 25)	1,102,634	115,493
At December 31, 2015 and January 1, 2016	39,298,340	1,955,720
Issued on June 29, 2016 as dividend payment (Note 25)	1,413,760	103,356
At December 31, 2016	40,712,100	2,059,076
US$ 000		299,502

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Special share issued and fully paid			
One special share issued and fully paid at US$0.10 per share	*	*	*
Non-redeemable convertible cumulative preference shares	21	21	3

* Less than RMB 1 (US$1)

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 (US$15,583).

On July 14, 2015, based on the elections by shareholders, the dividend of US$1.10 per share for the financial year 2014 was paid in the form of approximately US$23.4 million in cash and 1,102,634 shares, at the volume weighted average trading price of US$16.8792 per share, with total value equivalent to RMB 115,493.

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.

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

In 2016, HLGE issued a total of 2,899 new ordinary shares, pursuant to the conversion of 28,998 non-redeemable convertible cumulative preference shares, 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.

Table of Contents

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 reserves (cont d)

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.

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.

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 exercised or expired.

25. Dividends declared and paid

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend paid in 2016: US$0.85 per share (2015: US$1.10 per share)	257,500	221,549	32,225
	257,500	221,549	32,225
Dividend paid in cash	142,007	118,193	17,192
Dividend paid in shares (Note 24)	115,493	103,356	15,033
	257,500	221,549	32,225

26. Statutory reserves

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Statutory general reserve [(ii)]			
At January 1	191,433	186,874	27,182
Transfer from retained earnings	1,332	923	134
Disposal of a subsidiary	(5,891)		
At December 31	186,874	187,797	27,316
Statutory public welfare fund [(iii)]			
At January 1 and December 31	85,641	85,641	12,457
General surplus reserve [(iv)]			
At January 1 and December 31	25,706	25,706	3,739
Total	298,221	299,144	43,512

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.

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. Statutory reserves (cont d)

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

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

27. 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	31.12.2016 US$ 000
Expense arising from equity-settled share-based payment transactions	10,275	5,301	771
Total expense arising from share-based payment transactions	10,275	5,301	771

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 2015	WAEP 2015	Number of Share options 2016	WAEP 2016
Outstanding at January 1	570,000	US$ 21.11	570,000	US$ 21.11
Cancelled during the year			(40,000)	US$ 21.11
Outstanding at December 31	570,000	US$ 21.11	530,000	US$ 21.11
Exercisable at December 31	190,000	US$ 21.11	353,333	US$ 21.11

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

Fair value of share options and assumptions

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

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

27. Share-based payment (cont d)

The exercise price for options outstanding as at December 31, 2016 was US$21.11 (2015: US$21.11).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2016 was 7.6 (2015: 8.6) 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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Trade and bills payables [(i)]	3,841,756	4,672,750	679,673
Other payables	1,300,439	1,203,908	175,114
Interest payable	33,492	890	129
Accrued staff costs	338,437	378,441	55,046
Dividend payable	41,377	37,851	5,506
Associates and joint ventures	18,909	91,439	13,300
Other related parties	142,932	120,619	17,545
Financial liabilities at amortized cost (Note 36)	5,717,342	6,505,898	946,313
Accrued contribution to defined contribution plans	27,820	27,820	4,047
Other tax payable	39,064	42,750	6,218
Trade and other payables with liquidity risk (Note 33)	5,784,226	6,576,468	956,578
Deferred grants (Note 17)	26,455	21,939	3,191
Deferred income [(ii)]	170,000	170,000	24,727
Advance from customers	96,168	76,636	11,147
Total trade and other payables (current)	6,076,849	6,845,043	995,643

(i) As of December 31, 2016, the trade and bills payables include bills payable to joint ventures, associates and other related parties amounted to RMB 50 (US$7) (2015: RMB Nil), RMB 12,210 (US$1,776) (2015: RMB 7,230) and RMB 133,708 (US$19,448) (2015: RMB 192,927) respectively.

(ii) This relates to the Group s transfer of technology know-how to a joint venture of which revenue has not been recognized.

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Other payables (non-current) [(i)] (Note 33, Note 36)	115,341	136,772	19,984

(i) Non-current other payables relate to provision for bonus of RMB 133,928 (US$19,480)(2015: RMB 115,341) which is not expected to be settled next 12 months and deferred income of RMB 2,844 (US$414) (2015: RMB Nil) in respect of 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.

Interest payable is normally settled throughout the financial year. As of December 31, 2015, interest payable related to outstanding Notes and USTBs were RMB 27,679 and RMB 4,576 respectively. As of December 31, 2016, there is no interest payable on Notes and USTB.

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

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

29. Provision for product warranty

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
At January 1	298,552	233,577	33,975
Provision made	307,575	350,803	51,026
Provision utilized	(372,550)	(345,530)	(50,259)
At December 31	233,577	238,850	34,742

30. Related party disclosures

The ultimate parent

As of December 31, 2016, the controlling shareholder of the Company, HLA, indirectly owned 16,360,845, or 40.2% (2015: 15,189,528 or 38.7%), of the ordinary shares in the capital of the Company, as well as a special share that entitles it to elect a majority of directors of the Company. HLA controls the Company through its wholly-owned subsidiary, HLC, and through HLT, a wholly-owned subsidiary of HLC. HLT owns approximately 23.4% (2015: 22.5%) 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 16.8% (2015: 16.2%) 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 297, RMB 32 and RMB 34 (US$5) during the financial years ended December 31, 2014, 2015 and 2016 respectively. The transaction relates to consultancy fees charged by HLA.

Entity with significant influence over the Group

As of December 31, 2016, the Yulin City Government through Coomber Investment Ltd. owned 18.4% (2015: 18.4%) of the ordinary shares in the capital of the Company.

The following provides the significant transactions that have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at December 31, 2015 and 2016, refer to Note 21 and Note 28):

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Sales				
- Diesel engines to State Holding Company, its subsidiaries and affiliates	1,462	185	6,271	912

- Raw materials to State Holding Company, its subsidiaries and affiliates	802,715	516,494	441,238	64,180
- Hospitality and restaurant service charged to State Holding Company, its subsidiaries and affiliates	1,700	3,247	4,761	693
- Diesel engines and raw materials to associates and joint ventures	237,203	156,444	219,724	31,960
Purchase				
- Purchase of raw materials and supplies from subsidiaries and affiliates of State Holding Company	1,460,956	1,181,852	1,028,358	149,579
- Purchases of raw materials and supplies from associates and joint ventures	87,509	90,354	308,488	44,871
Others				
- Delivery expense charged by subsidiaries of State Holding Company	213,747	164,690	143,077	20,811
- Storage and distribution expenses charged by a subsidiary of State Holding Company	32,131	30,462	50,181	7,299
- Property management service charged by an associate	24,713	23,359	20,976	3,051

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)

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
- Leasing expenses charged by State Holding Company	4,853	12,951	4,715	686
- Consultancy fees charged by State Holding Company			10,026	1,458
- General and administrative expenses charged by State Holding Company		3,141	4,283	623
- General and administrative expenses charged by affiliates of HLA	6,821	6,271	6,887	1,002
- Charged by joint venture for service provided			2,121	309
- Charged to subsidiaries of State Holding Company for service provided			8,873	1,291
- Rental income charged to State Holding Company and its subsidiaries	5,176	619	5,454	793
- Hotel management fees charged to a joint venture	1,383			
- Purchases of vehicles and machineries from State Holding Company and its subsidiary	16,725	1,963		
- Purchases of additional shareholding in a subsidiary of State Holding Company [(i)]		4,170		

Note:

(i) In October 2015, Yuchai acquired 2.86% of equity interest in YAMC from State Holding Company with a purchase consideration of RMB 4.2 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 and settlement occurs in cash.

Compensation of key management personnel of the Group

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Short-term employee benefits	39,812	27,331	31,975	4,651
Contribution to defined contribution plans	294	305	415	60
Cost of share-based payment	4,455	8,477	4,387	638

	44,561	36,113	36,777	5,349

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

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies

Operating lease commitments - Group as lessee

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:

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Within one year			
- With related parties	5,405	800	116
- With third parties	7,858	11,338	1,649
After one year but not more than five years			
- With related parties	1,859	1,399	204
- With third parties	5,131	12,537	1,823
More than five years			
- With third parties		114	17
	20,253	26,188	3,809

The minimum lease payments recognized as an expense for the financial year ended December 31, 2014, 2015 and 2016 amounted to RMB 52,728, RMB 60,201 and RMB 54,617 (US$7,944).

Operating lease commitments - Group as lessor

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

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

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Within one year			
- With related parties	1,319	102	15
- With third parties	2,537	1,624	236
After one year but not more than five years			
- With third parties	9,128	1,855	270
More than five years			
- With third parties	18,967	268	39

31,951	3,849	560

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies (cont d)

Finance lease commitments

The Group has finance lease for office equipment and motor vehicles. The lease has term of renewal but no purchase options and escalation clause. Renewal is at the option of the Group.

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

	31.12.2015		31.12.2016			
	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	64	59	43	7	38	6
Later than one year but not later than five years	59	55	70	10	70	10
Total minimum lease payments	123	114	113	17	108	16
Less: Amount representing finance charges	(9)		(5)	(1)		
Present value of minimum lease payments	114	114	108	16	108	16

Capital commitments

As of December 31, 2015 and 2016, Yuchai had capital expenditure (mainly in respect of property, plant and equipment) contracted for but not paid amounting to RMB 570,650 and RMB 427,089 (US$62,122) respectively. The Group s share of joint venture s capital commitment is disclosed in Note 6.

Investment commitments

As of December 31, 2015 and 2016, the Group has commitment of RMB 6,195 and RMB 75,000 (US$10,909) relating to the Group s interest in joint venture, respectively.

Letter of credits

As of December 31, 2015 and 2016, Yuchai had issued irrevocable letter of credits of RMB 3,981 and RMB 29,729 (US$4,324), respectively.

Product liability

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

31. Commitments and contingencies (cont d)

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.

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.

The HLGE is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia. HLGE is listed on the Main Board of the Singapore Exchange.

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

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

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

32. Segment information (cont d)

Year ended December 31, 2014	Yuchai RMB 000	HLGE RMB 000	Adjustments and eliminations RMB 000	Consolidated financial statements RMB 000
Revenue				
External customers				
- Sale of goods	16,345,885			16,345,885
- Revenue from hotel and restaurant operation	31,502	47,313		78,815
- Revenue from sale of development properties		865		865
- Rental income	9,969	608		10,577
Total revenue	16,387,356	48,786		16,436,142
Results				
Interest income	42,014	1,463	2,347[(1)]	45,824
Interest expense	(149,797)	(7,710)	5,866[(1)]	(151,641)
Impairment of property, plant and equipment	(10,433)			(10,433)
Impairment of technology development cost	(60,000)			(60,000)
Depreciation and amortization	(422,777)	(7,872)	(607)[(2)]	(431,256)
Share of profit/(loss) of associates	960	(4)		956
Share of losses of joint ventures	(19,067)	(8,840)	(2,804)[(9)]	(30,711)
Income tax expense	(156,861)	(2,115)	(20,663)[(3)]	(179,639)
Segment profit	1,249,021	15,937	(63,573)[(4)]	1,201,385

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

32. Segment information (cont d)

Year ended December 31, 2015	Yuchai RMB 000	HLGE RMB 000	Adjustments and eliminations RMB 000	Consolidated financial statements RMB 000
Revenue				
External customers				
- Sale of goods	13,634,395			13,634,395
- Revenue from hotel and restaurant operation	32,918	61,135		94,053
- Rental income	4,618	371		4,989
Total revenue	13,671,931	61,506		13,733,437
Results				
Interest income	35,557	1,415	4,342[(1)]	41,314
Interest expense	(110,618)	(7,595)	5,226[(1)]	(112,987)
Impairment of property, plant and equipment	(2,873)			(2,873)
Impairment of technology development cost	(26,700)			(26,700)
Depreciation and amortization	(458,759)	(10,060)	(616)[(2)]	(469,435)
Share of profit/(loss) of associates	250	(5)		245
Share of losses of joint ventures	(10,480)	(11,584)	19,128[(9)]	(2,936)
Income tax expense	(161,731)	(2,491)	(12,596)[(3)]	(176,818)
Segment profit	744,846	(7,564)	(51,144)[(4)]	686,138
Total assets	17,684,449	343,236	787,917[(5)]	18,815,602
Total liabilities	(9,183,670)	(359,796)	157,933[(6)]	(9,385,533)
Other disclosures				
Investment in associates	3,092	287		3,379
Investment in joint ventures	170,484	6,597	89,703[(8)]	266,784
Capital expenditure	428,917	929	44[(7)]	429,890

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

32. Segment information (cont d)

Year ended December 31, 2016	Yuchai RMB 000	HLGE RMB 000	Adjustments and eliminations RMB 000	Consolidated financial statements RMB 000	Consolidated financial statements US$ 000
Revenue					
External customers					
- Sale of goods	13,542,568			13,542,568	1,969,828
- Revenue from hotel and restaurant operation	45,021	65,697		110,718	16,104
- Rental income	10,898	656		11,554	1,681
Total revenue	13,598,487	66,353		13,664,840	1,987,613
Results					
Interest income	51,235	1,919	3,829(1)	56,983	8,288
Interest expense	(73,028)	(7,706)	5,603(1)	(75,131)	(10,929)
Impairment of property, plant and equipment	(3,297)			(3,297)	(480)
Depreciation and amortization	(467,177)	(10,098)	(885)(2)	(478,160)	(69,550)
Share of profit/(loss) of associates	461	(5)		456	66
Share of losses of joint ventures	(349)	(3,252)	(467)(9)	(4,068)	(592)
Income tax expense	(141,272)	(2,281)	(16,717)(3)	(160,270)	(23,313)
Segment profit	906,311	(1,154)	(21,279)(4)	883,878	128,564
Total assets	17,324,947	342,656	928,903(5)	18,596,506	2,704,947
Total liabilities	(8,419,018)	(369,124)	177,448(6)	(8,610,694)	(1,252,465)
Other disclosures					
Investment in associates	3,553	283		3,836	557
Investment in joint ventures	173,781	2,714	(144)(8)	176,351	25,651
Capital expenditure	282,284	2,623	86(7)	284,993	41,454

Note:

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

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

(3)

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

(4) Profit/(loss) for each operating segment does not include income tax expense.

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

(6) Included here are mainly the inter-company loan elimination, liabilities of the holding entity and cumulative withholding tax provision for dividends that are expected to be paid from income earned after December 31, 2007 by Yuchai that has not been remitted.

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

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

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

There has been no change to the Group s measurement of segment profit for each reportable operating segment.

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

32. Segment information (cont d)

Geographic information

Revenue from external customers:

	31.12.2014 RMB 000	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
People s Republic of China	16,359,873	13,630,979	13,508,721	1,964,905
Other countries	76,269	102,458	156,119	22,708
	16,436,142	13,733,437	13,664,840	1,987,613

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

Revenue from one customer group amounted to RMB 3,580,856 (US$520,852) (2015: RMB 2,900,332; 2014: RMB 3,687,953), arising from sales by Yuchai segment.

Non-current assets

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
People s Republic of China	5,197,256	4,893,338	711,758
Other countries	96,805	95,430	13,881
	5,294,061	4,988,768	725,639

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, 2015 and 2016.

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, 2016.

The analyses exclude the impact of movements in market variables on provisions and on the non-financial assets and liabilities of foreign operations.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group s exposure to the risk of changes in market interest rates relates primarily to the Group s interest-bearing bank deposits and loans and borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Group are disclosed in Note 16(b). As certain 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.

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)

Interest rate risk (cont d)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits 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 basis points higher or lower and all other variables were held constant, the profit before tax for the year ended December 31, 2016 of the Group would increase/decrease by RMB 15,712 (US$2,285) (2015: increase/decrease by RMB 6,632).

Foreign currency risk

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

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

The Group s exposures to foreign currency are as follows:

	31.12.2015				
	Singapore Dollar RMB 000	Euro RMB 000	US Dollar RMB 000	Renminbi RMB 000	Others RMB 000
Held for trading investment	11,984				
Trade and other receivables	565	407	12,762	32,651	
Cash and bank balances	124,034		2,177	29,520	938
Financial liabilities	(32,163)	(280,924)			
Trade and other payables	(12,978)	(50)	(5,051)	(2,020)	
Net assets/(liabilities)	91,442	(280,567)	9,888	60,151	938

	31.12.2016				
	Singapore Dollar RMB 000	Euro RMB 000	US 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
US$ 000	12,251	336	(12,749)	4,403	143

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)

Foreign currency risk (cont d)

Foreign currency risk sensitivity

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

	Profit before tax		
	31.12.2015 RMB 000	**31.12.2016 RMB 000**	**31.12.2016 US$ 000**
Singapore Dollar	9,144	8,422	1,225
Euro	(28,057)	231	34
US Dollar	989	(8,765)	(1,275)
Renminbi	6,015	3,027	440

Equity price risk

The Group has investment in TCL which is quoted.

Equity price risk sensitivity

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

	31.12.2015 RMB 000	**31.12.2016 RMB 000**	**31.12.2016 US$ 000**
Statement of profit or loss	1,198	1,218	177

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, 2016, the Group had top 20 customers (2015: top 20 customers) that owed the Group more than RMB 151,033 (US$21,968) (2015: RMB 196,537) and accounted for approximately 51% (2015: 45%) of trade receivables (excluding bills receivables) owing respectively. These customers are located in the PRC. There were 38 customers (2015: 47 customers) with balances greater than RMB 1,000 (US$145) accounting for over 79.6% (2015: 88.4%) 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 does not hold collateral as security.

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

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)

Liquidity risk

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

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

As at December 31, 2015	One year or less RMB 000	Two to five years RMB 000	More than five years RMB 000	Total RMB 000
Financial assets				
Trade and bills receivables	7,229,801			7,229,801
Other receivables, excluding tax recoverable	217,572	1,519		219,091
Cash and bank balances	3,782,123	60,000		3,842,123
Held for trading investment and derivative not designated as hedges foreign exchange forward contract	27,490			27,490
	11,256,986	61,519		11,318,505
Financial liabilities				
Interest-bearing loans and borrowings	2,473,654	59,673		2,533,327
Trade and other payables (Note 28)	5,784,226	115,341		5,899,567
Other liabilities	64	59		123
	8,257,944	175,073		8,433,017

As at December 31, 2016	One year or less RMB 000	Two to five years RMB 000	More than five years RMB 000	Total RMB 000	Total US$ 000
Financial assets					
Trade and bills receivables	7,111,890			7,111,890	1,034,457
Other receivables, excluding tax recoverable	246,687	1,588		248,275	36,113
Cash and bank balances	4,052,957			4,052,957	589,521
Held for trading investment and derivative not designated as hedges foreign exchange forward contract	12,181			12,181	1,772

	11,423,715	1,588	11,425,303	1,661,863
Financial liabilities				
Derivative not designated as hedges foreign exchange forward contract	140		140	20
Interest-bearing loans and borrowings	909,824	18,409	928,233	135,016
Trade and other payables (Note 28)	6,576,468	136,772	6,713,240	976,472
Other liabilities	43	70	113	17
	7,486,475	155,251	7,641,726	1,111,525

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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).

	31.12.2015 RMB 000	31.12.2016 RMB 000	31.12.2016 US$ 000
Interest-bearing loans and borrowings (current and non-current) (Note 16(b))	2,455,704	910,406	132,423
Trade and other payables (current and non-current) (Note 28)	6,192,190	6,981,815	1,015,537
Less: Cash and bank balances (Note 23)	(3,842,123)	(4,052,957)	(589,521)
Net debts	4,805,771	3,839,264	558,439
Equity attributable to equity holders of the parent	7,239,617	7,683,834	1,117,649
Total capital and net debts	12,045,388	11,523,098	1,676,088

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, 2015 and 2016.

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, 2015 and 2016.

35. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group s assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2015:

		Fair value measurement using		
	Date of valuation	Quoted prices in	Significant observable inputs	Significant unobservable inputs

		Total RMB 000	active markets (Level 1) RMB 000	(Level 2) RMB 000	(Level 3) RMB 000
Assets measured at fair value					
Held for trading investment:					
Quoted equity shares TCL (Note 19)	December 31, 2015	11,984	11,984		
Derivative financial asset:					
Foreign exchange forward contract - Euro [(i)] (Note 19)	December 31, 2015	15,506		15,506	

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

35. Fair value measurement (cont d)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at December 31, 2016:

	Date of valuation	Total RMB 000	Fair value measurement using Quoted prices in active markets (Level 1) RMB 000	Significant observable inputs (Level 2) RMB 000	Significant unobservable inputs (Level 3) RMB 000
Assets measured at fair value					
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 [(i)] (Note 16(a))	December 31, 2016	140		140	

Note:

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

There have been no transfers between Level 1 and Level 2 during the period.

36. Financial assets and financial liabilities

	Note	Financial assets at fair value through profit or loss RMB 000	Loans and receivables RMB 000	Other financial liabilities at amortized cost RMB 000	Total RMB 000
As at December 31, 2015					
Financial assets					
Held for trading investment	19	11,984			11,984
Trade and bills receivables	20		7,178,513		7,178,513
Other receivables	21		214,429		214,429
Cash and bank balances	23		3,842,123		3,842,123
		11,984	11,235,065		11,247,049
Financial liabilities					
Trade and other payables	28			5,832,683	5,832,683
Loans and borrowings	16(b)			2,455,704	2,455,704
Other liabilities	16(a)			114	114
				8,288,501	8,288,501

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)

	Note	Financial assets at fair value through profit or loss RMB 000	Loans and receivables RMB 000	Other financial liabilities at amortized cost RMB 000	Total RMB 000	Total US$ 000
As at December 31, 2016						
Financial assets						
Held for trading investment	19	12,181			12,181	1,772
Trade and bills receivables	20		7,057,256		7,057,256	1,026,510
Other receivables	21		248,275		248,275	36,113
Cash and bank balances	23		4,052,957		4,052,957	589,521
		12,181	11,358,488		11,370,669	1,653,916
Financial liabilities						
Trade and other payables	28			6,642,670	6,642,670	966,207
Loans and borrowings	16(b)			910,406	910,406	132,423
Other liabilities	16(a)			248	248	36
				7,553,324	7,553,324	1,098,666

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.

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

The management assessed that cash and cash equivalents, short-term deposits, restricted cash, trade and bills receivables, other receivables, trade and other payables and interest-bearing loans and borrowings (current) approximate their carrying amounts largely due to the short-term maturities of these instruments.

The management assessed that long-term bank deposits, non-current other receivables, interest-bearing loans and borrowings (non-current), non-current other payables and other liabilities approximate their fair value as their interest rates approximate the market interest rates.

37. Events after the reporting period

Proposed disposal of the equity interest in LKN Investment International Pte. Ltd.

On February 13, 2017, HLGE announced that it had entered into a memorandum of understanding with Jingrui Properties (Group) Co., Ltd (Purchaser) in relation to the proposed disposal of all the issued shares in the capital of LKN Investment International Pte. Ltd. (LKNII). LKNII is an investment holding company which owns 100% equity interest in Shanghai Hutai Real Estate Development Co., Ltd and 60% equity interest in CHQ.

The indicative aggregate consideration payable by the Purchaser to HLGE will be RMB 550,000 (US$80,000). The proposed disposal is subject to both parties entering into a sale and purchase agreement and the approval of the shareholders of HLGE at an extraordinary general meeting to be convened.

On February 28, 2017, both parties agreed to extend the long stop date for the execution of the sale and purchase agreement to March 15, 2017 and Natural Apex Limited, the related company of the Purchaser, shall purchase the entire shares in LKNII, subject to the terms of the sale and purchase agreement to be executed between LKNII and Natural Apex Limited.

Table of Contents

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

37. Events after the reporting period (cont d)

Proposed disposal of the equity interest in LKN Investment International Pte. Ltd. (cont d)

On March 15, 2017, the long stop date for the execution of the sale and purchase agreement was further extended to April 15, 2017.

On April 16, 2017, HLGE announced that no sale and purchase agreement had been entered into between the parties by the Long Stop Date and as there was no extension of the Long Stop Date, the MOU had lapsed.

Pre-listed of equity interest in CHQ on Shanghai United Assets and Equity Exchange (SUAEE)

On March 31, 2017, HLGE announced that it had on the same day, together with the other 40% equity holder, pre-listed its entire shareholding interest in CHQ on SUAEE in accordance with the amended listing procedures of SUAEE. The pre-listing process would be for a fixed period of 20 business days and interested parties would not be invited to put in a bid nor will a reserve price be set. Upon the expiry of the pre-listing period on April 28, 2017, the formal listing of the sale will take place whereupon interested parties will be invited to put in their bids. Upon the close of the public tender process, the successful bidder (if any) will be selected by SUAEE and the sellers whereupon a sale and purchase agreement can be negotiated and entered into.

Incorporation of MTU Yuchai Power Co., Ltd

On January 18, 2017, the joint venture entity, MTU Yuchai Power Co., Ltd (MTU Yuchai Power) was incorporated. This was further to the Company s announcement made on February 19, 2016 that Yuchai had entered into an agreement with MTU Friedrichshafen GmbH (MTU), a subsidiary of Rolls-Royce Power System, to set up a 50-50 joint venture entity. MTU Yuchai Power will produce, under license from MTU, the MTU s diesel engines in China.