DIAMOND OFFSHORE DRILLING INC
Form 8-K
January 22, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

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

Date of report: JANUARY 22, 2002

Date of earliest event reported: JANUARY 21, 2002

DIAMOND OFFSHORE DRILLING, INC.
(Exact Name of Registrant as Specified in Charter)

DELAWARE	1-13926	76-0321760
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

15415 KATY FREEWAY, HOUSTON, TEXAS	77094
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (281) 492-5300

NOT APPLICABLE
(Former name or former address, if changed since last report)

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(c) Exhibits.

Exhibit number	Description
99.1	Rig Status Report as of January 21, 2002

ITEM 9. REGULATION FD DISCLOSURE

The Registrant hereby incorporates by reference into this Item 9 the summary report of the status, as of January 21, 2002, of the offshore drilling rigs of the Registrant attached as Exhibit 99.1, which is being furnished in accordance with Rule 101(e)(1) under Regulation FD and shall not be deemed to be filed.

Statements in this report that contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, include, but are not limited to, statements regarding the current term, start and end dates and comments concerning future contracts and availability and other aspects of the Registrant's drilling rigs. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated or projected. A discussion of the risk factors that could impact these areas and the Registrant's overall business and financial performance can be found in the Registrant's reports filed with the Securities and Exchange Commission. These factors include, among others, general economic and business conditions, casualty losses, industry fleet capacity, changes in foreign and domestic oil and gas exploration and production activity, competition, changes in foreign, political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, customer preferences and various other matters, many of which are beyond the Registrant's control. Given these concerns, investors and analysts should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the rig status report, and the Registrant undertakes no obligation to publicly update or revise any forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DIAMOND OFFSHORE DRILLING, INC.

By: /s/ William C. Long

William C. Long
Vice President, General Counsel
& Secretary

Dated: January 22, 2002

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EXHIBIT INDEX

Exhibit number	Description
99.1	Rig Status Report as of January 21, 2002

4

="2"> 12,922

Exchange (gain)/loss on financing activities

(1,599) (19,399) 16,736 2,734

Fair value loss/(gain) on foreign exchange forward contract

9,467 (12,198) (1,993)

Loss on disposal of property, plant and equipment

9,830 24,623 3,427 560

Gain on disposal of prepaid operating leases

(10,678) (11,437) (1,869)

Gain on disposal of investment property

(5,908)

Loss on disposal of subsidiaries

9,436 363 59

Loss on disposal of other investments

498

Gain on disposal of held for trading investment

(3,484) (569)

Gain on disposal of assets classified as held for sale

(7,292) (1,192)

Finance costs

156,174 213,019 161,211 26,341

Interest income

(53,159) (99,685) (78,939) (12,898)

Fair value loss/(gain) on held for trading investment

16,104 (8,237) 2,866 469

Fair value gain on available-for-sale investment

(10,983)

Total adjustments

1,796,224 1,389,760 1,677,172 274,042

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

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China Yuchai International Limited

Consolidated Statement of Cash Flows (cont d)

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

	31.12.2011 Rmb 000	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Changes in working capital				
Decrease/(increase) in inventories	229,216	428,699	(302,693)	(49,459)
(Increase)/decrease in trade and other receivables	(2,447,246)	179,389	(1,322,998)	(216,173)
(Decrease)/increase in trade and other payables	(1,004,343)	(329,148)	790,171	129,111
(Increase)/decrease in balances with related parties	(13,187)	43,684	(90,891)	(14,851)
Increase in balances with holding company	(21)			
Decrease in development properties	2,952	3,234	8,923	1,459
Cash flows (used in)/from operating activities	(1,436,405)	1,715,618	759,684	124,129
Income taxes paid	(325,981)	(203,426)	(170,042)	(27,784)
Net cash flows (used in)/from operating activities	(1,762,386)	1,512,192	589,642	96,345
Investing activities				
Acquisition/additional investment in associates and joint ventures	(33,295)		(19,720)	(3,222)
Dividend received from held for trading investment	1,656	3,245	1,009	165
Dividends received from joint ventures	10,166	10,116	1,054	172
Interest received	53,159	99,685	70,608	11,537
Proceeds from disposal of other investments		6,786		
Proceeds from disposal of held for trading investment			21,341	3,487
Payment for prepaid operating leases	(16,768)	(8,561)	(58,941)	(9,631)
Proceeds from disposal of prepaid operating leases	18,800		19,792	3,234
Additions of intangible asset	(11,365)	(108,082)	(4,640)	(758)
Proceeds from disposal of property, plant and equipment	150,139	27,440	15,169	2,479
Purchase of property, plant and equipment	(807,274)	(643,457)	(441,434)	(72,129)
Proceeds from disposal of subsidiaries, net of cash disposed		38,056	9,504	1,553
Proceeds from disposal of assets classified as held for sale			84,497	13,806
Proceeds from disposal of investment property	40,528			
Proceeds from government grants	71,015	68,637	43,694	7,139
Placement of fixed deposits with banks			(319,619)	(52,224)
Withdrawal of fixed deposits from banks			24,095	3,936
Net cash flows used in investing activities	(523,239)	(506,135)	(553,591)	(90,456)

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

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China Yuchai International Limited

Consolidated Statement of Cash Flows (cont d)

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

	31.12.2011 Rmb 000	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Financing activities				
Dividends paid to non-controlling interests	(139,473)	(76,510)	(72,744)	(11,886)
Dividends paid to equity holders of the parent	(365,683)	(211,729)	(207,708)	(33,939)
Interest paid	(179,802)	(231,523)	(159,497)	(26,061)
Payment of finance lease liabilities	(27,751)		(25)	(4)
Proceeds from borrowings	3,547,962	3,582,740	2,895,844	473,169
Repayment of borrowings	(477,328)	(4,835,507)	(3,078,286)	(502,980)
Capital contributions from non-controlling interests		4,000		
Placement of fixed deposits pledged with banks for banking facilities		(240,566)	(167,329)	(27,341)
Withdrawal of fixed deposits pledged with banks for banking facilities	26	111	240,566	39,308
Acquisition of non-controlling interests		(1,953)	(4,000)	(654)
Net cash flows from/(used in) financing activities	2,357,951	(2,010,937)	(553,179)	(90,388)
Net increase/(decrease) in cash and cash equivalents	72,326	(1,004,880)	(517,128)	(84,499)
Cash and cash equivalents at January 1	4,060,990	4,124,776	3,127,602	511,038
Effect of exchange rate changes on balances in foreign currencies	(8,540)	7,706	(13,938)	(2,276)
Cash and cash equivalents at December 31	4,124,776	3,127,602	2,596,536	424,263

Significant non-cash investing and financing transactions

For the years ended December 31, 2011, 2012 and 2013, certain customers settled their debts with trade bills amounting to Rmb 13,879 million, Rmb 11,987 million and Rmb 14,012 million (US$2,290 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.

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, 2013 were authorized for issue in accordance with a resolution of the directors on April 22, 2014. 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 located at 16 Raffles Quay #26-00, Hong Leong Building, Singapore 048581. The principal place of business of the Company 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 (Yuchai), a Sino-foreign joint stock company which manufactures, assembles and sells diesel engines in the People s Republic of China (the PRC). The principal markets for Yuchai s diesel engines are truck manufacturers in the PRC.

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

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

Yuchai established three direct subsidiaries, Guangxi Yuchai Machinery Monopoly Development Co., Ltd. (YMMC), Guangxi Yulin Yuchai Accessories Manufacturing Company Limited (YAMC) (previously known Guangxi Yulin Yuchai Machinery Spare Parts Manufacturing Company Limited) and Yuchai Express Guarantee Co. Ltd (YEGCL). YMMC and YAMC were established in 2000, and are involved in the manufacture and sale of spare parts and components for diesel engines in the PRC. YEGCL was established in 2004, and is involved in the provision of financial guarantees to mortgage loan applicants in favor of banks in connection with the applicants purchase of automobiles equipped with diesel engines produced by Yuchai. In 2006, YEGCL ceased granting new guarantees with the aim of servicing the remaining outstanding guarantee commitments to completion. YEGCL has no more guarantee commitments remaining at the end of 2011. As YEGCL is a non-core business of the Group, on December 27, 2012, Yuchai disposed of its entire shareholdings in YEGCL to one of the subsidiaries of State Holding Company for a consideration of Rmb 85.8 million, and resulted in a loss of Rmb 10.9 million. As at December 31, 2013, Yuchai held an equity interest of 71.83% and 97.14% respectively in YAMC and YMMC. As at December 31, 2013, YMMC had direct controlling interests in 29 subsidiaries (2012: 29 subsidiaries) which are involved in the trading and distribution of spare parts of diesel engines and automobiles, all of which are established in the PRC.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

1. Corporate information (cont d)

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

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

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

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

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

On April 10, 2007, Yuchai signed a Cooperation Framework Agreement with Zhejiang Geely Holding Group Co., Ltd. (Geely) and Zhejiang Yinlun Machinery Company Limited (Yinlun) to consider establishing a proposed company to develop diesel engines for passenger cars in the 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 transferred its 52% shareholding in Zhejiang Yuchai to Yinlun, and Yinlun transferred its 18% shareholding in Jining Yuchai to Yuchai. Jining Yuchai has repaid Zhejiang Yuchai a total consideration of Rmb 24.8 million which Zhejiang Yuchai 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 at historical cost 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 in accordance with the relevant IFRS. The share swap transaction was considered as a disposal of a subsidiary and the gain on disposal was not material to the Group.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

1. Corporate information (cont d)

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

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

On December 11, 2009, Yuchai, pursuant to a Joint Venture Agreement entered into with Caterpillar (China) Investment Co., Ltd. (Caterpillar), incorporated Yuchai Remanufacturing Services (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 the Yuchai Remanufacturing is US$200 million. Yuchai holds 51% and Caterpillar holds the remaining 49% in the joint venture. Yuchai and Caterpillar hold joint control in governing the financial and operating policies of the joint venture and Caterpillar has veto rights in relation to certain key decisions despite having only 49% voting rights. As such, Yuchai continues to account for Yuchai Remanufacturing as a joint venture.

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

On August 11, 2009, Yuchai, pursuant to a Framework Agreement entered into with Jirui United Heavy Industry Co., Ltd. (Jirui United), a company jointly established by China International Marine Containers Group Ltd., 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%.

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

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

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

1. Corporate information (cont d)

1.3 Investment in 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.

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.

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)

1.4 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 in the separate and consolidated financial statements of HLGE.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

1. Corporate information (cont d)

1.4 Investment in HL Global Enterprises Limited (cont d)

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.

As of December 31, 2012 and 2013, four directors, including the chairman, out of eight directors on the board of HLGE were appointed by the Group.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2013. 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, and
- The ability to use its power over the investee to affect its returns

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 statement of comprehensive income 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 in 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 assets (including goodwill) and liabilities of the subsidiary

Derecognizes the carrying amount of any non-controlling interests

Derecognizes the cumulative translation differences recorded in equity

Recognizes the fair value of the consideration received

Recognizes the fair value of any investment retained

Recognizes any surplus or deficit in profit or loss

Reclassifies the parent s share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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

(a) Business combinations and goodwill

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

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

If the business combination is achieved in stages, 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. It is then considered in the determination of goodwill.

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

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 re-assessment 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.

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)

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 associate and joint venture 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 neither amortized nor individually tested for impairment.

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.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

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 an associate and a joint venture in the statement of profit or loss.

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

(c) Current versus non-current classification

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

- Expected to be realized or intended to 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.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(d) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements 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.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(d) Fair value measurement (cont d)

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 33.

(e) Foreign currency translation

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

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

Transactions and balances

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

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

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group s net investment of a foreign operation. These are recognized in 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 was measured. 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).

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.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(e) Foreign currency translation (cont d)

Group companies

For consolidation purpose, 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 exchange rates prevailing at the dates of the transactions. 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 6.1201 = US$1.00, the rate quoted by the People s Bank of China (PBOC) at the close of business on March 7, 2014. No representation is made that the Rmb amounts could have been, or could be, converted into US Dollar at that rate or at any other rate prevailing on March 7, 2014 or any other date.

(f) Revenue recognition

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

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

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership 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.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(f) Revenue recognition (cont d)

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 finance income in the statement of profit or loss.

Rental income

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

Dividends

Dividend income 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.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(h) Taxes (cont d)

Deferred tax (cont d)

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

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

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

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

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

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

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

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

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(h) Taxes (cont d)

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 or for distribution to equity holders of the parent and discontinued operations

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

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

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

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

A disposal group qualifies as discontinued operation if it is:

A component of the Group that is a cash-generating unit (CGU) or a group of CGUs

Classified as held for sale or distribution or already disposed in such a way, or

A major line of business or major geographical area

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(i) Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (cont d)

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

(j) Property, plant and equipment

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

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

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

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

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

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(j) Property, plant and equipment (cont d)

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

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

(k) Research and development costs

Research costs are expensed as incurred. The Group received research and development subsidies of Rmb 37,560 and Rmb 34,489 (US$5,635) for the years ended December 31, 2012 and 2013 respectively.

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

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually. As of December 31, 2011, 2012 and 2013, capitalized development expenditures are not amortized because the intangible asset has not been completed and is not available for use or sale.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(l) 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 short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted 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 investments

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.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

Financial assets (cont d)

Subsequent measurement (cont d)

Financial assets at fair value through profit or loss (cont d)

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 finance 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. There was no financial asset designated as held-to-maturity during the year.

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

Financial assets (cont d)

Subsequent measurement (cont d)

Available-for-sale (AFS) financial investments

AFS financial investments 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 investments 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 investments is 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.

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

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

2.3 Summary of significant accounting policies (cont d)

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

Financial assets (cont d)

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.

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

Impairment of financial assets (cont d)

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 effective interest rate.

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 finance 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.

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

Impairment of financial assets (cont d)

AFS financial investments

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

In the case of equity investments classified as 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.

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.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

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, financial guarantee contracts, 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 of IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

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Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

Financial liabilities (cont d)

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 15.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortisation.

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.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

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.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. 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.

(m) 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.

(n) 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 fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the 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 unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

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

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

Intangible assets

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

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)

(o) 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.

(p) Leases

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

Prepaid operating lease

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

Group as a lessee

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

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

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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)

(p) Leases (cont d)

Sale and leaseback

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

Group as a lessor

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

(q) 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.

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)

(r) Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Product warranty

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(s) Pensions and other post-employment benefits

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

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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) Development properties

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

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

(u) Related parties

A related party is defined as follows:

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

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

(ii) has significant influence over the Company; or

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

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

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

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

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

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

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

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

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China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

2.3 Summary of significant accounting policies (cont d)

(v) Segment reporting

For management purposes, the Group is organized into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 30, including the factors used to identify the reportable segments and the measurement basis of segment information.

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and amendments to IFRS effective as of January 1, 2013:

IFRS 1 *First-time Adoption of International Financial Reporting Standards Government Loans Amendments to IFRS 1*

IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7*

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

IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

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

IAS 1 *Clarification of the requirement for comparative information (Amendment)*

IAS 19 *Employee Benefits (Revised 2011)*

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

The adoption of the standards or interpretation is described below:

IFRS 1 *First-time Adoption of International Financial Reporting Standards Government Loans Amendments to IFRS 1*

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

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China Yuchai International Limited

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

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

2.4 Changes in accounting policy and disclosures (cont d)

New and amended standards and interpretations (cont d)

IFRS 7 ***Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7***

These amendments require an entity to disclose information about rights to set-off related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments were effective for annual periods beginning on or after January 1, 2013. The amendment has no impact on the Group.

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

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

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard was effective for annual periods beginning on or after January 1, 2013 and had no impact to the currently held investments of the Group.

IFRS 11 ***Joint Arrangements***

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard was effective for annual periods beginning on or after January 1, 2013. The amendment has no impact on the Group.

IFRS 12 ***Disclosure of Interests in Other Entities***

IFRS 12 sets out the requirements for disclosures relating to an entity s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Notes 4 6.

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

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

2.4 Changes in accounting policy and disclosures (cont d)

New and amended standards and interpretations (cont d)

IFRS 13 ***Fair Value Measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 33.

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

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified (recycled) to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group s financial position or performance.

IAS 1 ***Clarification of the requirement for comparative information (Amendment)***

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments affect presentation only and have no impact on the Group s financial position or performance.

IAS 19 ***Employee Benefits*** **(Revised)**

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment was effective for annual periods beginning on or after January 1, 2013.

The Revised IAS 19 amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee s entitlement to the benefits.

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

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

2.4 Changes in accounting policy and disclosures (cont d)

New and amended standards and interpretations (cont d)

IAS 19 *Employee Benefits* (Revised) (cont d)

The change in accounting policy has been applied retrospectively. The effects of adopting Revised IAS 19 on the financial statements are disclosed in Note 36.

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

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

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

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

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

2.5 Standards issued but not yet effective (cont d)

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

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of currently has a legally enforceable right to set-off and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

IAS 36 *Impairment of Assets Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which IFRS 13 is not applied. The amendments affect disclosures only and will have no impact on our financial position or performance.

IFRIC Interpretation 21 *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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

2 Basis of preparation and accounting policies (cont d)

2.5 Standards issued but not yet effective (cont d)

Annual Improvements to IFRS

These improvements, which are applicable to the Group, include:

(a) IFRS 8 *Operating Segments*

This improvement clarifies that operating segments may be combined/aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar . This improvement also clarifies reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. This improvement is to be applied retrospectively for annual periods beginning on or after July 1, 2014.

(b) IAS 24 *Related Party Disclosures*

The amendment clarifies that a management entity an entity that provides key management personnel services is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is to be applied retrospectively for annual periods beginning on or after July 1, 2014.

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

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the 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 substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

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, 2012 and 2013 are disclosed in Note 21.

Consolidation of a special purpose entity

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

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

China Yuchai International Limited

Notes to the Consolidated Financial Statements

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

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

3.1 Judgments (cont d)

Consolidation of a special purpose entity (cont d)

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

3.2 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 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 eleven years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs and assets, including a sensitivity analysis, are disclosed and further explained in Note 6 and Note 13.

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(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)

Useful lives of plant and machinery

The costs of plant and machinery of the Group are depreciated on a straight-line basis over the useful lives of the plant and machinery. Management estimates the useful lives of the plant and machinery to be within 3 to 20 years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery, therefore future depreciation charges could be revised. The carrying amount of the Group s plant and machinery as of December 31, 2013 is disclosed in Note 11. A 5% decrease in the expected useful life of the plant and machinery from management s estimate would decrease the Group s profit before tax approximately Rmb 15,564 (US$2,543) (2012: Rmb 13,629).

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, 2012 and 2013 are Rmb 353,382 and Rmb 389,077 (US$63,574) respectively.

The Group has unrecognized tax loss carried forward amounting to Rmb 400,326 and Rmb 354,606 (US$57,941) as of December 31, 2012 and 2013 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by Rmb 60,690 (US$9,917) for year ended December 31, 2013 (2012: Rmb 68,238).

Derecognition of bills receivable

The Group sells bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 19.

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2012 and 2013 were Rmb 268,006 and Rmb 305,938 (US$49,989) respectively.

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Notes to the Consolidated Financial Statements

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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, 2012 and 2013 were Rmb 44,304 and Rmb 29,808 (US$4,871) 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, 2012 and 2013 were Rmb 126,398 and Rmb 105,610 (US$17,256) respectively.

Fair value measurement of financial instruments

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

Withholding tax

The China s Unified Enterprise Income Tax Law (CIT law) also provides for a tax of 10% to be withheld from dividends paid to foreign investors of PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to January 1, 2008. Beginning on January 1, 2008, a 10% withholding tax is imposed on dividends paid to the Company, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Company will recognize a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that the Company does not plan to indefinitely reinvest in the PRC enterprises. The carrying amounts of withholding tax provision as of December 31, 2012 and 2013 are Rmb 118,078 and Rmb 141,172 (US$23,067) 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.

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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 31.12.2012 %	Group s effective equity interest 31.12.2013 %
Guangxi Yuchai Machinery Company Limited	People s Republic of China	76.4	76.4
Guangxi Yulin Yuchai Accessories Manufacturing Company Limited	People s Republic of China	74.2	74.2
Guangxi Yuchai Machinery Monopoly Development Co., Ltd.	People s Republic of China	54.9	54.9
Xiamen Yuchai Diesel Engines Co., Ltd.	People s Republic of China	76.4	76.4
Guangxi Yulin Hotel Company Limited	People s Republic of China	76.4	76.4
Jining Yuchai Engine Company Limited	People s Republic of China	53.5	53.5
HL Global Enterprises Limited (i)	Singapore	50.1	50.1

Note:

(i) During the year ended December 31, 2012, the Group converted 13,957,233 of Series A RCPS into ordinary shares in the capital of HLGE. As a result, the Group s interest in HLGE increased to 50.1%, based on the total outstanding ordinary shares of HLGE, net of the ordinary shares held by the Trustee under the Trust (Note 1.4).

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

	31.12.2011	31.12.2012	31.12.2013
Proportion of equity interest held by NCI			
Yuchai	23.6%	23.6%	23.6%
YMMC	28.2%	28.2%	28.2%

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

4. Investments in subsidiaries (cont d)

	31.12.2011 Rmb 000	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Accumulated balances of material NCI				
Yuchai		1,621,006	1,786,116	291,844
YMMC		115,993	144,923	23,680
Profit allocated to material NCI				
Yuchai	284,036	183,116	237,658	38,832
YMMC	22,699	24,276	28,958	4,732
Dividends paid to material NCI				
Yuchai	139,473	72,526	72,526	11,850
YMMC		3,984	218	36

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

	31.12.2011	
	Yuchai Rmb 000	YMMC Rmb 000
Summarized statement of comprehensive income		
Revenue	15,413,243	1,383,444
Profit for the year representing total comprehensive income	1,204,051	80,577
Attributable to NCI	284,036	22,699
Summarized statement of cash flows		
Operating	(1,770,971)	73,741
Investing	(576,655)	(40,317)
Financing	2,380,279	

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China Yuchai International Limited

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

4. Investments in subsidiaries (cont d)

	31.12.2012	
	Yuchai Rmb 000	**YMMC Rmb 000**
Summarized statement of financial position		
Current assets	12,034,072	989,864
Non-current assets, excluding goodwill	4,968,179	188,881
Goodwill	212,636	
Current liabilities	(9,557,105)	(740,140)
Non-current liabilities	(386,062)	(1,910)
Net assets	7,271,720	436,695
Less: Non-controlling interests of the subsidiaries	(187,503)	(24,936)
Total equity	7,084,217	411,759
Attributable to NCI	1,621,006	115,993
Summarized statement of comprehensive income		
Revenue	13,411,384	1,560,067
Profit for the year representing total comprehensive income	776,247	86,178
Attributable to NCI	183,116	24,276
Summarized statement of cash flows		
Operating	1,530,987	118,853
Investing	(524,161)	(10,580)
Financing	(2,041,239)	(1,424)

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

4. Investments in subsidiaries (cont d)

	31.12.2013			
	Yuchai		YMMC	
	Rmb 000	US$ 000	Rmb 000	US$ 000
Summarized statement of financial position				
Current assets	13,176,353	2,152,964	743,803	121,535
Non-current assets, excluding goodwill	5,244,795	856,978	367,570	60,059
Goodwill	212,636	34,744		
Current liabilities	(9,195,395)	(1,502,491)	(571,507)	(93,382)
Non-current liabilities	(1,445,955)	(236,263)	(3,568)	(583)
Net assets	7,992,434	1,305,932	536,298	87,629
Less: Non-controlling interests of the subsidiaries	(208,303)	(34,036)	(21,840)	(3,569)
Total equity	7,784,131	1,271,896	514,458	84,060
Attributable to NCI	1,786,116	291,844	144,923	23,680
Summarized statement of comprehensive income				
Revenue	15,870,380	2,593,157	1,546,612	252,710
Profit for the year representing total comprehensive income	1,007,454	164,614	102,797	16,797
Attributable to NCI	237,658	38,832	28,958	4,732
Summarized statement of cash flows				
Operating	621,561	101,561	(13,376)	(2,186)
Investing	(555,722)	(90,803)	(211,219)	(34,512)
Financing	(583,757)	(95,384)	(4,218)	(689)

The ability of certain subsidiaries of the Group to transfer funds to the Group in the form of cash dividend or to repay advances made by the Group is subject to the approval of the relevant authorities.

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4. Investments in subsidiaries (cont d)

Disposal of subsidiaries

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

On September 4, 2013, the Group disposed of one of its wholly-owned subsidiaries, Yuchai/Asimco Components Company Limited (Yuchai Asimco) and the disposal consideration was settled in cash.

The value of assets and liabilities of the disposals recorded in the consolidated financial statements and the cash flow effect of the disposals were:

	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Property, plant and equipment	69,488		
Prepaid operating leases	35,363		
Deferred tax assets	5,000		
Other receivables	86,522	10,000	1,634
Inventories	627		
Prepayments	24,784		
Premium paid for acquisition of non-controlling interests	10,692		
Cash and cash equivalents	7,545	5,994	979
	240,021	15,994	2,613
Trade and other payables	(50,066)	(133)	(22)
Provision for taxation	(4,745)		
Non-controlling interests	(64,953)		
Carrying value of net assets	120,257	15,861	2,591
Loss on disposal of subsidiaries (Note 8.2(b))	(9,436)	(363)	(59)
Total consideration	110,821	15,498	2,532
Cash and cash equivalents of the subsidiaries	(7,545)	(5,994)	(979)
Amount due to acquiree	(65,220)		
Net cash inflow on disposal of subsidiaries	38,056	9,504	1,553

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5. Investment in associates

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

	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Unquoted equity shares, at cost			
At January 1	22,797	4,642	758
Reclassification to assets classified as held for sale (Note 22)	(18,155)		
At December 31	4,642	4,642	758
Share of post-acquisition reserves			
At January 1	15,204	(2,531)	(414)
Share of results, net of tax	2,372	159	26
Share of foreign currency translation	734	(40)	(6)
Reclassification to assets classified as held for sale (Note 22)	(20,841)		
At December 31	(2,531)	(2,412)	(394)
Investment in associates	2,111	2,230	364

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

5. Investment in associates (cont d)

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Group s effective equity interest 31.12.2012 %	31.12.2013 %
Held by subsidiaries				
Scientex Park (M) Sdn. Bhd. (Scientex Park)[(i)]	Property investment and development	Malaysia	14.0	
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	14.8	14.8
Guangxi Yulin Yuchai Property Management Co., Ltd. [(iii)]	Property management	People s Republic of China	22.3	22.3

Note:

(i) The Group has significant influence in these entities through HLGE who held effective equity interests of 28% interest in these entities. As of December 31, 2012, the investment in Scientex Park (M) Sdn. Bhd. was presented as Assets classified as held for sale and the disposal of 28% equity interest in Scientex Park was completed on April 8, 2013 (Note 22).

(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.

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

5. Investment in associates (cont d)

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:

	31.12.2011		
	Scientex Park Rmb 000	**Quan Xing Rmb 000**	**Total Rmb 000**
Revenue	34,284	51,436	85,720
Profit for the year representing total comprehensive income	6,545	(1,555)	4,990
Proportion of the Group s ownership	28%	20%	
Group s share of profit/(loss) of significant associates	1,833	(311)	1,522
Group s share of loss of other associates, representing the Group s share of total comprehensive loss of other associates			(3)
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year			1,519

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

5. Investment in associates (cont d)

	31.12.2012		
	Scientex Park Rmb 000	**Quan Xing Rmb 000**	**Total Rmb 000**
Current assets		28,089	28,089
Non-current assets		894	894
Current liabilities		(23,010)	(23,010)
Equity		5,973	5,973
Proportion of the Group s ownership	28%	20%	
Carrying amount of significant associates		1,195	1,195
Carrying amount of other associates			916
Carrying amount of investment in associates			2,111
Revenue	43,042	64,877	107,919
Profit for the year representing total comprehensive income	7,175	1,880	9,055
Group s share of profit of significant associates	2,009	376	2,385
Group s share of loss of other associates, representing the Group s share of total comprehensive loss of other associates			(13)
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year			2,372

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

5. Investment in associates (cont d)

		31.12.2013	
	Quan Xing Rmb 000	**Total Rmb 000**	**Total US$ 000**
Current assets	36,662	36,662	5,990
Non-current assets	518	518	85
Current liabilities	(30,448)	(30,448)	(4,975)
Equity	6,732	6,732	1,100
Proportion of the Group s ownership	20%		
Carrying amount of significant associates	1,346	1,346	220
Carrying amount of other associates		884	144
Carrying amount of investment in associates		2,230	364
Revenue	74,029	74,029	12,096
Profit for the year, representing total comprehensive income	751	751	122
Group s share of profit of significant associates	150	150	24
Group s share of profit of other associates, representing the Group s share of total comprehensive income of other associates		9	2
Group s share of profit for the year, representing the Group s share of total comprehensive income for the year		159	26

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6. Investment in joint ventures

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

	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Unquoted equity shares, at cost			
At January 1	683,749	534,944	87,408
Addition		19,720	3,222
Reclassification to assets classified as held for sale (Note 22)	(148,805)		
At December 31	534,944	554,664	90,630
Share of post-acquisition reserves and impairment losses			
At January 1	(227,004)	(158,424)	(25,886)
Share of results, net of tax (i)	(39,241)	(79,245)	(12,948)
Dividend received	(10,116)	(1,054)	(172)
Reclassified to assets classified as held for sale (Note 22)	118,305		
Others	1,088	(725)	(119)
Translation adjustment	(1,456)	(94)	(15)
At December 31	(158,424)	(239,542)	(39,140)
Carrying amount of the investment	376,520	315,122	51,490

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

6. Investment in joint ventures (cont d)

Note:

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

	31.12.2011 Rmb 000	31.12.2012 Rmb 000	31.12.2013 Rmb 000	31.12.2013 US$ 000
Share of joint venture losses	(12,639)	(36,437)	(44,138)	(7,212)
Impairment of investment in joint ventures	(53,540)		(32,303)	(5,278)
Fair value adjustments arising from purchase price allocation	(14,972)	(2,804)	(2,804)	(458)
Share of results, net of tax	(81,151)	(39,241)	(79,245)	(12,948)

The Group has interests in the following joint ventures:

Name of company	Percentage of interest 31.12.2012 %	Percentage of interest 31.12.2013 %	Principal activities
Held by subsidiaries			
Augustland Hotel Sdn. Bhd.			