

第一拖拉机股份有限公司 FIRST TRACTOR COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code : 0038)



2013

ANNUAL REPORT

IMPORTANT NOTICE

- I. The board of directors (the “**Board**”) and board of supervisors (the “**Board of Supervisors**”) of First Tractor Company Limited (the “**Company**”), and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that there are no false information, misleading statements or material omissions contained in this annual report (the “**Annual Report**”), and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents therein.
- II. All Directors attended the Board meeting convened to consider the Annual Report.
- III. Baker Tilly Hong Kong Limited issued the standard unqualified audit report to the Company.
- IV. Mr. Zhao Yanshui (the Chairman of the Company), Mr. Yao Weidong (person in charge of the accounting function) and Ms. Zhou Juan (person in charge of the Accounting Department) have confirmed the truthfulness, accuracy and completeness of the financial statements in the Annual Report.
- V. Proposals of profit distribution or capitalisation from capital reserves of the Company for the reporting period (the “**Reporting Period**”) as considered by the Board:

We propose a profit distribution plan for 2013 as follows: a cash dividend of RMB0.60 (tax inclusive) for every ten shares on the basis of a total share capital of 995,900,000 shares as at 31 December 2013. The Company does not propose any capitalisation from capital reserves in 2013.

- VI. Forward-looking statements such as the future development strategy and business plan contained in this report do not constitute any substantial commitment to investors by the Company. Investors are advised to pay attention to any investment risks.
- VII. Any misappropriation of the Company's funds (not in the ordinary course of business of the Company) by the controlling shareholders or its associates?
No
- VIII. Any external guarantees provided by the Company in violation of any established decision-making procedures?
No

CONTENTS

I	Definitions and Significant Risks Warning	4
II	Company Profile	7
III	Accounting Data and Financial Summary	10
IV	Chairman's Statement	12
V	Report of the Directors	15
VI	Significant Events	45
VII	Changes in Shares and Information on Shareholders	58
VIII	Directors, Supervisors, Senior Management and Employees	66
IX	Corporate Governance	79
X	Internal Control	97
XI	Report of the Board of Supervisors	98
XII	Supplementary Information	102
XIII	Independent Auditor's Report	105



MAJOR EVENTS OF FIRST TRACTOR IN 2013

January

- The delivery of equity interest in YTO Foundry was completed and YTO Foundry became a wholly-owned subsidiary of the Company.

February

- The Company increased capital contribution to Changtuo Company, which improved the Company's business layout in Northeast China.

March

- The Company completed the first tranche of corporate bonds with an aggregate principal amount of RMB800 million.

May

- The Company completed the second tranche of corporate bonds with an aggregate principal amount of RMB700 million.

June

- The "Project of Associated Research and Development of Manufacture Technology for Hi-powered Powershift Tractors", as a science and technology support program for the Twelfth Five-year Period of the Ministry of Science and Technology, undertaken by the Company passed the acceptance by an expert group of the Ministry of Science and Technology.

July

- The Company was selected by the SSE Corporate Governance Board, becoming a sample stock of SSE Corporate Governance Index.

August

- CAMACO., a subsidiary of the Company, obtained a contract amounting to approximately USD100 million in Ethiopia. The first tranche of 1,480 hi-powered and mid-powered wheeled tractors were exported to Ethiopia.
- The Company completed the assets reorganization of the power machinery sector.
- The "'Sunshine Action of Integrity Convention of Listed Companies in Henan Province" Enters First Tractor (「河南上市公司誠信公約陽光行」走進一拖股份)" was held in the Company.



September

- 100 Dongfanghong-branded C1402 crawler tractors were exported to Uzbekistan, which was the largest crawler tractor export case in China in 2013.



MAJOR EVENTS OF FIRST TRACTOR IN 2013 *(continued)*

October

- The high-powered powershift transmission tractor LF2204 of the Company won the “Excellent Award for New Products” at the 2013 China International Agricultural Machinery Exhibition (2013年中國國際農業機械展覽會).

November

- Li Keqiang, Premier of the State Council, stepped on “Dongfanghong” tractor and asked in detail the operation related information of the tractor while investigating the progress of comprehensive supplementary trial reforms of modern agriculture in Heilongjiang.



December

- The bankruptcy and reorganization of Yangdong Company (揚動公司) participated in by Jiangyan Power, a subsidiary of the Company, was completed and Yangdong Company was included in the scope of consolidated statements of the Company.
- The Company won 6 awards including the Award for “User’s Favorite Tractor” in the Fourth “Fine Farming Cup” (“精耕杯”) Appraisal of Brands in the Agricultural Machinery Industry organized by Agricultural Machinery 360 (<http://www.nongji360.com/>) and “Business Information of Chinese Agricultural Machinery”.
- Zhao Yanshui, Chairman of the Company was awarded as the 2013 Top Ten Figures in Agricultural Machinery Industry.



- Mr. Wang Erlong was approved as a non-executive Director at the general meeting of the Company.



DEFINITIONS AND SIGNIFICANT RISKS WARNING

I. DEFINITIONS

Unless the context otherwise requires, the following terms should have the following meanings in this report:

Company	means	First Tractor Company Limited (第一拖拉機股份有限公司)
Group	means	First Tractor Company Limited and its controlled subsidiaries
Controlled subsidiary	means	A company held as to more than 50% by the Company; a company actually controlled by the Company through agreement and arrangement
Subsidiary	means	A subsidiary as defined under the Listing Rules
YTO	means	YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company
Sinomach	means	China National Machinery Industry Corporation (中國機械工業集團有限公司), the ultimate controlling shareholder of the Company
YTO Flag	means	YTO (Luoyang) Flag Auto-Body Company Limited (一拖(洛陽)福萊格車身有限公司), a wholly owned subsidiary of the Company
YTO Axle	means	YTO (Luoyang) Drive Axle Company Limited (一拖(洛陽)車橋有限公司), a controlled subsidiary of the Company
Tractors Research Company	means	Luoyang Tractors Research Institute Co., Ltd. (洛陽拖拉機研究所有限公司), a controlled subsidiary of the Company
YTO International	means	YTO International Ltd. (一拖國際經濟貿易有限公司), a wholly owned subsidiary of the Company
YTO Forklift	means	YTO (Luoyang) Forklift Truck Company Limited (一拖(洛陽)叉車有限公司), a wholly owned subsidiary of the Company
Jiangyan Power	means	YTO (Jiangyan) Power Machinery Co., Ltd. (一拖(姜堰)動力機械有限公司), a controlled subsidiary of the Company
YTO Finance	means	YTO Finance Company Limited (中國一拖集團財務有限責任公司), a controlled subsidiary of the Company
YTO France	means	YTO France SAS, a wholly owned subsidiary of the Company
YTO Diesel	means	YTO (Luoyang) Diesel Engine Co., Ltd. (一拖(洛陽)柴油機有限公司), a controlled subsidiary of the Company
YTO Shentong	means	YTO (Luoyang) Shentong Construction Machinery Co., Ltd. (一拖(洛陽)神通工程機械有限公司), a wholly owned subsidiary of the Company
BCM	means	Brilliance China Machinery Holdings Limited (華晨中國機械控股有限公司), a controlled subsidiary of the Company
YTO (Xinjiang) Machinery	means	YTO (Xinjiang) Machinery Co., Ltd. (一拖(新疆)東方紅裝備機械有限公司), a wholly owned subsidiary of the Company
YTO Injection Pump	means	YTO (Luoyang) Fuel Injection Pump Co., Ltd. (一拖(洛陽)燃油噴射有限公司), a controlled subsidiary of the Company

DEFINITIONS AND SIGNIFICANT RISKS WARNING (*continued*)

YTO Foundry	means	YTO (Luoyang) Foundry Company Limited (一拖(洛陽)鑄造有限公司), a wholly owned subsidiary of the Company
YTO Transportation	means	YTO (Luoyang) Transportation Machinery Co., Ltd. (一拖(洛陽)搬運機械有限公司), a controlled subsidiary of the Company
Changtuo Company	means	Changtuo Agricultural Machinery Equipment Group. Company Limited (長拖農業機械裝備集團有限公司), a controlled subsidiary of the Company
Yangdong Company	means	Yangdong Co., Ltd.(揚動股份有限公司), a controlled subsidiary of YTO Diesel
YTO Power Machinery	means	YTO (Lupoyang) Power Machinery Company Limited (一拖(洛陽)動力機械有限公司), a wholly owned subsidiary of YTO Diesel
CAMACO	means	China-Africa Machinery Corp. (中非重工投資有限公司), a controlled subsidiary of the Company
CBRC	means	China Banking Regulatory Commission
CSRC	means	China Securities Regulatory Commission
SASAC	means	State-owned Assets Supervision and Administration Commission of the State Council
Prospectus	means	the “prospectus in connection with the initial public offering of A Shares of First Tractor Company Limited” (《第一拖拉機股份有限公司首次公開發行A股股票招股說明書》) prepared under relevant laws and regulations for the initial public offering of A Shares
Shanghai Stock Exchange	means	the Shanghai Stock Exchange
Stock Exchange	means	the Stock Exchange of Hong Kong Limited
Listing Rules	means	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time)
A Share	means	ordinary shares as approved by the CSRC which are issued to domestic investors and qualified foreign investors, traded on domestic stock exchanges, denominated, subscribed for and traded in RMB
H Share	means	ordinary shares as approved by the CSRC which are issued to foreign investors, and listed with the approval of the Stock Exchange, denominated in RMB, subscribed for and traded in Hong Kong dollars
agricultural machinery	means	various machinery used in the crop farming and animal husbandry, and the primary processing of agricultural and animal products
power machinery	means	diesel engine and fuel injection pump products, etc.
hi-powered wheeled tractor	means	wheeled tractor with a power of 70 horsepower or above
mid-powered wheeled tractor	means	wheeled tractor with a power of 25 (inclusive) to 70 horsepower



DEFINITIONS AND SIGNIFICANT RISKS WARNING (*continued*)

low-powered wheeled tractor	means	wheeled tractor with a power of less than 25 horsepower
crawler tractors	means	tractors with the crawler as walking device
diesel engine	means	internal combustion engines that use diesel as fuel
non-road diesel engine	means	diesel engines used for non-road machinery such as construction machinery and agricultural machinery
forklift truck	means	various wheeled carrying vehicles used for loading, unloading, stacking and short-distance conveyance of packed palletized goods
mining trucks	means	non-road vehicles, mainly used to transport the earth-rock and ores relating to mine engineering

II. SIGNIFICANT RISKS WARNING

1. Risks relating to changes in industrial policies

The Company principally engaged in the research, manufacture and sales of agricultural machinery (mainly the tractors) and power machinery (mainly the facilities of agricultural machineries). In the recent decade, the PRC national policy on subsidies for agricultural machinery purchase has direct and obvious promotion effects on the development of agricultural machinery business, and the implementation methods of subsidies are being adjusted and improved consistently. Changes in the focus and implementation methods of the subsidies for agricultural machinery purchase may influence the sales of the major products and the financial position of the Company.

2. Risks relating to the intensified industrial competition

The rapid growth and sound developmental prospect of PRC agricultural machinery industry in recent years absorbed international advanced enterprises and domestic advanced enterprises in other businesses, resulted in an intensified competition, and will impact on the sales of products, market share and human resources management of the Company. The Company will enhance the capability against market risks by taking measures such as strengthening the research and development capability of product and technology, promoting product applicability and improving the incentive mechanism, etc.

3. Risks relating to finance lease and sales

Dealers and customers faced huge pressures from capital due to the seasonality of agricultural machinery sales, high unit price of large agricultural machinery and the policy of full payment for purchase of agricultural machinery. In order to promote sales, the Company has adopted finance sales ways, such as finance lease and buyer's credit in the sales of products like mining trucks and hi-powered and mid-powered tractors, and provided corresponding guarantees to the users. Under such business model, the Company may bear the risk of the breach of contract by the end-users.

COMPANY PROFILE

I. INFORMATION OF THE COMPANY

Chinese name of the Company	第一拖拉機股份有限公司
Short name in Chinese	一拖股份
English name of the Company	First Tractor Company Limited
Legal representative of the Company	Mr. Zhao Yanshui

II. CONTACT PERSON AND METHODS

	Secretary to the Board	Representative in charge of securities affairs
Name	Ms. Yu Lina	Ms. Wei Yajun
Contact address	No.154 Jianshe Road, Luoyang, Henan Province, PRC	No.154 Jianshe Road, Luoyang, Henan Province, PRC
Telephone	(86 379) 64967038	(86 379) 64970213
Facsimile	(86 379) 64967438	(86 379) 64967438
E-mail	yulina@ytogroup.com	weiyajun027@163.com

III. BASIC INFORMATION

Registered address	No.154 Jianshe Road, Luoyang, Henan Province, PRC
Postal code of the registered address	471004
Office address	No.154 Jianshe Road, Luoyang, Henan Province, PRC
Postal code of the office address	471004
Company's website	http://www.first-tractor.com.cn
E-mail	msc0038@ytogroup.com



COMPANY PROFILE *(continued)*

IV. INFORMATION DISCLOSURE AND THE PLACE FOR DOCUMENTS INSPECTION

Name of newspapers designated for dissemination of information	China Securities Journal and Shanghai Securities News
Internet website for publication of Annual Report as designated by the CSRC	www.sse.com.cn
Internet website for publication of Annual Report as designated by the Stock Exchange	www.hkex.com.hk
Place for inspection of the Annual Report (China)	Secretarial Office of the Company, No.154 Jianshe Road, Luoyang, Henan Province, the PRC
Place for inspection of the Annual Report (Hong Kong)	Li & Partners 22/F, World-Wide House, Central, Hong Kong

V. BASIC INFORMATION OF THE COMPANY'S SHARES

Type	Stock exchanges for listing	Abbreviated name of shares	Stock code
A Share	Shanghai Stock Exchange	一拖股份	601038
H Share	The Stock Exchange	First Tractor	0038

COMPANY PROFILE *(continued)*

VI. CHANGES IN REGISTRATION OF THE COMPANY DURING THE REPORTING PERIOD

(I) Basic information

There is no change in the registration of the Company during the Reporting Period.

(II) Index of information related to the first registration of the Company

For details regarding the first registration of the Company, please refer to the basic information of the issuer as set out in the Prospectus.

(III) Changes in principal businesses since the listing of the Company

There has been no change in the principal businesses of the Company since its listing.

(IV) Changes in controlling shareholders since the listing of the Company

There has been no change in the controlling shareholders of the Company since its listing.

VII. OTHER RELATED INFORMATION

Auditors of the Company (PRC)	Name	Baker Tilly China Certified Public Accountants
	Office address	2/F, Block B, Huatong Building, 19 Chegongzhuang West Road Yi, Haidian District, Beijing, PRC
	Names of signing accountant	Tan Xiancai(譚憲才), Zhou Yao(周堯)
Auditors of the Company (Hong Kong)	Name	Baker Tilly Hong Kong Limited
	Office address	2/F, 625 King's Road, North Point, Hong Kong
	Names of signing accountant	Choi Kwong Yu (蔡光裕)
Sponsor providing on-going supervision and guidance during the Reporting Period	Name	CITIC Securities Company Limited
	Office address	North Tower, Excellence Times Square II, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, PRC
	Name of the signing sponsor representatives	Yu Hui (余暉), Yu Junli (于軍驪)
	On-going supervision period	8 August 2012 to 31 December 2014

ACCOUNTING DATA AND FINANCIAL SUMMARY

I. KEY FINANCIAL DATA SUMMARY

During the Reporting Period, the Company acquired 100% equity interest in YTO Foundry from YTO, the controlling shareholder of Company. The aforementioned equity acquisition constituted business combination under common control and restatements were made to the comparative figures of the consolidated financial statements. The financial data of 2012 stated below has been restated.

(I) Consolidated results

	2013 RMB'000	For the year ended 31 December			
		2012 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000	2009 RMB'000
Operating revenue	11,037,840	11,508,044	11,702,673	10,265,832	9,004,986
Profit before income tax	333,964	461,487	599,229	646,142	367,196
Income tax expense	(72,229)	(71,101)	(84,937)	(84,093)	(85,284)
Profit for the year	261,735	390,386	514,292	562,049	281,912
Profit attributable to					
owners of the Company for the year	221,950	324,964	440,051	542,670	248,551
Profit attributable to non-controlling interests for the year	39,785	65,422	74,241	19,379	33,361

ACCOUNTING DATA AND FINANCIAL SUMMARY (continued)

(II) Consolidated assets, liabilities and equity

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)	<i>RMB'000</i> (Restated)	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	12,060,650	11,338,019	10,131,246	8,839,660	6,187,416
Total liabilities	6,832,349	6,395,450	6,153,999	5,143,440	3,112,877
Net assets	5,228,301	4,942,569	3,977,247	3,696,220	3,074,539
Equity attributable to owners of the Company	4,473,895	4,417,081	3,439,348	3,230,113	2,844,608
Equity attributable to non-controlling interests	754,406	525,488	537,899	466,107	229,931

(III) Indicators of financial ratio

Major financial indicators				
	Basis of calculation	2013	2012	2011
			(Restated)	(Restated)
Gearing ratio	Total liabilities / total assets x 100%	56.6%	56.4%	60.7%
Current ratio	Current assets / current liabilities	1.56	1.37	1.17
Quick ratio	(Current assets - inventories) / current liabilities	1.20	1.11	0.94
Debt equity ratio	Total liabilities / shareholders' equity x 100%	152.7%	144.8%	178.9%

Note: Shareholders' equity excludes non-controlling interests.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

RESULTS REVIEW



Looking back into 2013, macro-economy was complex and changeable. The PRC central government adopted the overall work keynote of seeking improvement while maintaining stability and maintained the steady economic development. Mechanical industry rebounded slowly and saw moderate development. Agricultural machinery industry led the mechanical industrial development and sustained quicker growth due to the support from the PRC national policies. Given the shift of focus of national subsidy for

machinery purchase, the market demand for traditional products decreased gradually, trend for upgrading of customer's demands emerged and the divergence of development of the industry continued. At the same time, the continuous flourishing agricultural machinery industry attracted more and more competitors, resulted in increased competition in the agricultural machinery industry and a decrease in market concentration.

In face of the complicated external situation, the Company adhered to the development mindset of "focusing on the core areas for stronger businesses" (聚核鑄強), insisted on driving with innovation, speeded up the transformation and upgrading, and strengthened the integration of internal resources.

During the Reporting Period, the Twelve-Five Science and Technology Support Plan of the Ministry of Science and Technology, i.e. "Project of Associated Research and Development of Manufacture Technology for Hi-powered Powershift Tractors" (大功率動力換擋拖拉機製造技術聯合研發項目), which was assumed by the Company, had passed the inspection of the expert team in the Ministry of Science and Technology, and filled up the space in the domestic manufacture technology of high-powered powershift transmission tractors. The powershift transmission tractors realized batch sales and the Company completed the qualification test of the national III diesel engines matched for major machines, a crucial step for the transformation and upgrade of major products. At the beginning of 2013, the Company made additional contribution to Changtuo Company and further improved the business layout of the Company in northeastern regions; the completion of the asset reorganization of the power machinery segment had further optimized the internal resources allocation of the Company and enhanced the internal synergistic effects. Meanwhile, Jiangyan Power, a controlled subsidiary of the Company, participated in and completed the bankruptcy reorganization of Yangdong Company as the investor, which consolidated the development foundation of the company's light diesel engine business.

CHAIRMAN'S STATEMENT *(continued)*

At the same time, the expansion in international market has made a progress. The Company successfully implemented the Ethiopia comprehensive agricultural mechanization projects, with a total contract amount of USD100 million. In particular, the exportation of 1,480 units of wheeled tractors in phase I had refreshed the record of amount of single export order for high-powered and mid-powered wheeled tractors in China, as a result, not only expanded the international impact of "Dongfanghong" products, but also saw a new breakthrough in innovation of export business mode.

During the Reporting Period, the Company issued corporate bonds of RMB1.5 billion successfully, which not only improved the Company's debt structure, the low interest rate also helped to save financial costs, thus enhanced the profitability of the Company. The Company adhered to standard operation. In 2013, the Company was elected to be set on the listed companies corporate governance index plate of the Shanghai Stock Exchange, and became an index sample stock for corporate governance on the Shanghai Stock Exchange. This embodied the affirmation of capital market upon the governance mechanism and standard operation of the Company.

Reviewing the works in the past year, despite various measures, the Company recorded a decline in the Company's results for the Reporting Period due to the underperformed sales of hi-powered wheeled tractors, the principal product of the Company, the mining truck business as a result of the sluggish coal market, and that the effects of integration of the businesses of the newly acquired subsidiaries has not yet revealed, etc. Though the commercialization of new products made progress, the total volume was still low and insufficient to support business.



CHAIRMAN'S STATEMENT *(continued)*

PROSPECT

In respect of external environment, on the one hand, benefiting from the positive effects from national preferential agricultural policies and under the policy orientation that PRC continues to give priority to ensuring food safety, the future development of agricultural machinery industry is bright. On the other hand, after successive years of hot sales, the tractor industry also faces difficult situations, such as the slower growth, severer competition and huger pressure for upgrading towards high-end. Looking from the internal status, after these years' unremitting efforts, the Company has been equipped with basic conditions for upgrading major product technologies, with the core parts supply system being improved day by day, and the strategic developmental layout is formed preliminarily. Meanwhile, the year of 2014 will still be a peak period for product research and development as well as investment in technological innovation, with the implementation of projects and achievement of efficiency still facing huge pressure. The Company is in a "climbing period" of strategic development.

"It's like rowing upstream, not to advance is to drop back". The Company will proactively respond to challenges, adhere to the strategic mindset of "focusing on the core areas for stronger businesses" (聚核鑄強), firmly accelerate the upgrading of major product technology, improve the sales volume of powershift products and promote the shift work of diesel engine at national III level, so as to stabilize and enhance its advantages in high and low-end market. At the same time, the Company will focus on the technological upgrade of major products and seek for external cooperation with an open mind, based on its own resources and advantages. The Company will strengthen the business guidance and integration for mergers and acquisition of enterprises, clarify the strategic location and promote the synergistic effect, so as to improve the operating results. The Company will also further center on core business, proactively push forward the resource reorganization and seek for necessary exit of business, thus to focus on its core business, and achieve progress in providing series of resolutions for users based on the advantages and resources of the Company, with a profound insight into users' demands.

Zhao Yanshui

Chairman

27 March 2014

REPORT OF THE DIRECTORS

I. REVIEW OF THE COMPANY'S OPERATIONS DURING THE REPORTING PERIOD

(I) Analysis of principal businesses

Agricultural machinery business continued to grow under the strong growth in market demand and the impulse of purchase subsidy policies, yet witnessed a slower growing speed. According to the statistics from the Association of Agricultural Machinery Industry of China, agricultural machinery enterprises with national-scale recorded a revenue of RMB357,158 million from principal business for 2013 during the Reporting Period, a year on year increase of 16.31% but the growth rate is approximately 1.53 percentage points lower than the same period of 2012. Driving forces for tractor industry was weakened as influenced by factors such as adjustments of the purchase subsidy policy, significant reduction in subsidy increment and the transference of subsidy focuses. According to the statistics of China's tractor industry, 373,616 units of hi-powered and mid-powered tractors were sold during the Reporting Period, representing a year-on-year increase of 3.18%, mainly due to the decline in the growth rate of high-powered wheeled tractors and the higher growth in mid-powered wheeled tractors; and 331,866 units of low-powered wheeled tractors were sold, representing a year-on-year decrease of 6.4%.

Faced with complex external environment, the Company positively responded to difficulties and challenges posed by the slowdown in the domestic economic growth and the increasing competition in the industry, focusing on the improvement of developmental quality and effectiveness, entertained firm confidence to overcome difficulties, endeavored to expand market and improve quality, solidly improved management and made effort to control operational risks. During the Reporting Period, the sales of major products, such as hi-powered and mid-powered wheeled tractors recorded a slight growth. However, as the sales of mining truck and other businesses were weak, the integration effect of mergers and acquisition has not revealed and the provision for accounts receivables increased, in 2013, the Company recorded operating revenue of RMB11,037,840,000, representing a year-on-year decrease of 4.1%; net profit attributable to the owners of the Company of RMB221,950,000, representing a year-on-year decrease of 31.7%.



REPORT OF THE DIRECTORS (*continued*)

Unit: RMB'000

By segment	2013		Revenue 2012 (Restated)		Change of revenue from external customers over last year %	Segment results		Change over last year %
	Segment revenue	Revenue from external customers	Segment revenue	Revenue from external customers		2013	2012 (Restated)	
Agricultural machinery business	9,872,508	9,383,328	10,500,789	9,811,937	-4.4	236,850	332,885	-28.9
Power machinery business	2,229,985	1,463,591	2,004,945	1,224,001	19.6	98,445	89,983	9.4
Other machinery business	177,217	118,145	447,149	384,976	-69.3	(85,185)	(9,989)	N/A
Financial business	106,165	72,776	110,876	87,130	-16.5	57,170	61,809	-7.5
Unallocated and eliminations	(1,348,035)	—	(1,555,715)	—	—	26,684	(13,201)	N/A
Total	11,037,840	11,037,840	11,508,044	11,508,044	-4.1	333,964	461,487	-27.6

Agricultural machinery business

During the Reporting Period, the Company intensified the efforts for the marketing of marketable products by implementing the marketing strategy of “unique strategy for one region, one product and one shop” on key products and areas based different market competition in different regions; formulated specific incentive policies to effectively increase the regional sales volume of areas where we had no or minor market share. We continued to strengthen product improvement and timely introduced new products with reference to the changes of market demand. Mass-quantity on-sale of LY1104 and LX1104 for winter wheat growing regions, economic model 504/554 for paddy regions and 900 (narrow wheelbase) of the ME series, etc. laid the foundation for the increase of the sales volume in regional markets. Commercial promotion of new type of powershift transmission hi-powered wheeled tractors was accelerated and mass-quantity sales in key markets such as Xinjiang and Heilongjiang has been achieved.



■ Machining workshop of YTO Flag



■ Front axle assembly line of YTO Axle

REPORT OF THE DIRECTORS (*continued*)

In 2013, the Company sold 87,298 units of hi-powered and mid-powered tractors, representing a year-on-year increase of 2.02%, among which, sales of hi-powered wheeled tractors were 37,337 units, representing a year-on-year decrease of 11.8%; and 48,874 units were mid-powered wheeled tractors, representing a year-on-year increase of 17.13%. 1,087 units of crawler tractors were sold, representing a year-on-year decrease of 28.06%; sales of low-powered wheeled tractors were 18,730 units, representing a year-on-year decrease of 30.48%.

During the Reporting Period, the Company continued to promote the quality enhancement and adaptive improvement of export products, constantly expanded international market, and thus recorded the export of 4,149 units of hi-powered and mid-powered tractors with a year-on-year increase of 36.12% under the background where the industrial export of hi-powered and mid-powered tractors suffered from significant decline.

Power machinery business

In 2013, the Company strengthened the efforts to promote the research and development of new products and upgrade of the existing products while striving to expand the markets for tractors of 100 horsepower and above and the key ancillary markets for wheat/corn harvesters and loaders of 110 horsepower and above, which results in positive achievements; 6S series heavy-duty diesel engines also complete massive installation in hi-powered wheeled tractors of 180 to 220 horsepower for the first time; and breakthroughs were made in ancillary markets for engineering machinery such as 30 loaders and excavators. Jiangyan Power further consolidated its products accompanying the gradual manifestation of its implementation of technological transformation achievements. Positive results were obtained both in the Company's internal integration and external market exploration. During the Reporting Period, an aggregate of 181,519 units of various diesel engines models were sold by the Company, representing a year-on-year increase of 11.73%, among which, 116,588 units were charged to external sales, representing a year-on-year increase of 14.3%.

Other business

During the Reporting Period, subject to the insufficient demand in upstream markets of coal like steels, infrastructure construction and electricity, the coal industry of China witnessed a continuing downturn. In order to control operational risks, the Company timely adjusted its operation strategy, substantially curtailing products marketing, resulting in a significant decrease in the sales volume of mining trucks and forklifts.



REPORT OF THE DIRECTORS *(continued)*

During the Reporting Period, the Company effectively expanded the role of YTO Finance as a financial platform and continued to enhance its ability of financial services and support centering on the sales of the Company's primary products and actively boosted the finance lease of agricultural machinery and the pilot and exploration of buyer credit, accomplishing the extension of financing business from dealer to covering end users, providing support to product sales of the Company and a total financing of RMB555,829,600 for dealers and customers of the Company, and driving the Company to achieve RMB793,092,400 of sales revenue.

(II) Analysis of Financial Results

1. Analysis of changes in items of income statement and cash flows statement

Unit: RMB'000

Item	For the Reporting Period	For the corresponding period of the previous year (restated)	Changes (%)
Operating revenue	11,037,840	11,508,044	-4.1
Operating costs	9,332,664	9,956,425	-6.3
Selling and distribution expenses	403,516	355,033	13.7
Administrative expenses	845,227	765,671	10.4
Finance costs	80,013	62,686	27.6
Net cash generated from operating activities	(131,906)	491,563	-126.8
Net cash generated from investing activities	(516,092)	(788,246)	N/A
Net cash generated from financing activities	655,455	656,005	-0.1
Research and development expenses	399,132	392,304	1.7

REPORT OF THE DIRECTORS (*continued*)

2. Revenue

(1) Analysis of factors leading to changes in revenue

During the Reporting Period, the Company recorded operating revenue of RMB 11,037,840,000, representing a year-on-year decrease of 4.1%, which was mainly due to the decrease in the sales of the Company's agricultural machinery products.

(2) Analysis of factors affecting the revenue of the Company from sales of products which has a principal business of physical goods sales

Agricultural machinery products: during the Reporting Period, the Company sold 106,028 units of various tractor products, representing a year-on-year decrease of 5.76%; revenue of external sales of agricultural machineries amounted to RMB9,383,328,000, representing a year-on-year decrease of 4.37%. Revenue from agricultural machinery business accounted for 85.01% of the Company's operating revenue.

Power machinery products: in 2013, the Company sold 181,519 units of various diesel engine products, representing a year-on-year increase of 11.73%; among which, 116,588 units were sold externally, representing a year-on-year increase of 14.31%; during the Reporting Period, sales revenue of power machinery products amounted to RMB2,222,985,000, representing a year-on-year increase of 11.22%, among which, RMB1,463,591,000 was external revenue after internal offset, representing a year-on-year increase of 19.57%. Income from power machinery business accounted for 13.26% of the Company's operating revenue.

(3) Major customers

During the Reporting Period, sales to the five largest customers of the Company amounted to RMB935,853,000, accounting for 8.53% of the total sales of the Company.

(4) Major suppliers

During the Reporting Period, purchase from the five largest suppliers of the Company amounted to RMB1,435,095,000, accounting for 17.33% of the total purchase of the Company.



REPORT OF THE DIRECTORS *(continued)*

3. Gross profit margin

During the Reporting Period, the Company realized a gross profit of RMB 1,705,176,000, representing a year-on-year increase of 9.9%. The consolidated gross profit margin was 15.45%, representing a 1.97 percentage point increase from the previous period.

4. Expenses during the Reporting Period

Unit: RMB'000

Item	2013	2012	Change amount	Change (%)
Selling and distribution expenses	403,516	355,033	48,483	13.66%
Administrative expenses	845,227	765,671	79,556	10.39%
Finance costs	80,013	62,686	17,327	27.64%
Other expenses	201,244	7,540	193,704	2,569%

The selling and distribution expenses of the Group increased greatly during the Reporting Period, mainly due to the strengthening of the overseas aftersales service to ensure the repair and maintenance of export products and the strengthening of the domestic brand building and the advertising efforts.

The administrative expenses of the Group increased during the Reporting Period primarily due to the increase of costs and worker's wages caused by the newly merged company.

The finance costs of the Group increased greatly during the Reporting Period. It was mainly because investment increased resulting in larger funds used to expand the scale of financing and the interest expenses increased.

Other expenses increased in a relatively great extent during the Reporting Period. It was because the large increase of provision for bad debts as a result of the extension of the back section and the increase of aged debts.

REPORT OF THE DIRECTORS (*continued*)

5. Income Tax

During the Reporting Period, the Group's income tax expenses amounted to RMB72,229,000, representing a year-on-year increase of RMB1,128,000. The income tax rates of the Company and each subsidiary remained unchanged.

As approved by the Science and Technology Department and the Finance Department of Henan Province, the State Administration of Taxation and the local tax bureau, the Company and its subsidiaries, YTO Diesel, Tractors Research Company, Luoyang Xiyuan Vehicles and Power Inspection Institute Co., Ltd. (洛陽西苑車輛與動力檢驗所有限公司) and YTO Flag are entitled to the 15% preferential income tax rate for new and high tech enterprises.

6. Research and development costs

(1) Table of research and development costs

Unit: RMB'000

Research and development costs expensed during the Reporting Period	399,132
Research and development costs capitalized during the Reporting Period	0
Total research and development costs	399,132
Total research and development costs as a percentage of net assets (%)	7.63%
Total research and development costs as a percentage of operating revenue (%)	3.64%

(2) Explanations

During the Reporting Period, research and development costs were mainly used to the development and the complete machine performance research of economic non-road diesel engines nation III, structural upgrading and differentiate development of Dongfanhong tractors of 60-220 horsepower applied in China and foreign countries, development of powershift transmission tractors of LF2204/1504 series, research and development of machinery drive axles and gear boxes for agricultural machinery, so as to enhance technology level of the Company's principal products and consolidate and improve the competitiveness of its products.



REPORT OF THE DIRECTORS (*continued*)

7. Cash flows

Unit: RMB'000

Item	For the Reporting Period	For the corresponding period of the previous year	Change amount	Change (%)
Net cash flow from operating activities	-131,906	491,563	-623,469	-126.83
Net cash flow from investing activities	-516,092	-788,246	272,154	N/A
Net cash flow from financing activities	655,455	656,005	-550	-0.1

The net cash inflow from operating activities was RMB623,469,000 less than the corresponding period of the previous year, among which, net cash flow from operating activities of YTO Finance was RMB-187,483,000, representing a year-on-year decrease of RMB268,360,000 compared to the amount of RMB80,877,000 in the corresponding period of the previous year; net cash flow from operating activities of principal businesses was RMB55,578,000, representing a year-on-year decrease of RMB355,108,000 compared to the amount of RMB410,686,000 in the corresponding period of the previous year. The decrease was mainly because of the decline in sales of products and the deferral of repayment period in the Reporting Period resulted from the adjustment of the agricultural subsidy policies and the change of the focus of the subsidy.

The net cash outflow from investing activities was RMB272,154,000 less than the corresponding period of the previous year, mainly due to a greater decrease in the amount of payment made for equity investment in the Reporting Period.

8. Analyses and interpretation of the implementation of the Company's various financing, significant asset reorganizations for the early period

During the Reporting Period, the Company issued two tranches of unsecured corporate bonds to finance RMB1.5 billion, which were mainly used to repay bank loans and supplement working capital. Interests for the first tranche of corporate bond was fully paid to investors by the Company on 4 March 2014.

REPORT OF THE DIRECTORS (*continued*)

(III) Analysis of Assets and Liabilities

Unit: RMB'000

Item	As at the end of the Reporting Period	Percentage of total assets as at the end of the Reporting Period (%)	As at the end of previous reporting period	Percentage of total assets as at the end of previous reporting period (%)	Change over the end of previous reporting period (%)
Property, plant and equipment	3,098,211	25.69	2,558,568	22.57	21.09
Interests in associates	9,185	0.08	7,810	0.07	17.61
Available-for-sale financial assets	137,581	1.14	159,450	1.41	-13.72
Loan receivables (non-current)	15,360	0.13	45,653	0.40	-66.35
Loan receivables (current)	709,963	5.89	748,078	6.60	-5.10
Deferred income tax assets	76,350	0.63	64,585	0.57	18.22
Inventories	1,766,106	14.64	1,469,866	12.96	20.15
Trade and bill receivables	2,321,906	19.25	2,335,126	20.60	-0.57
Financial assets at fair value through profit or loss	359,095	2.98	306,801	2.71	17.04
Held-to-maturity financial assets	25,602	0.21	52,090	0.46	-50.85
Cash and cash equivalents	1,700,530	14.10	1,771,296	15.62	-4.00
Trade and bill payables	2,746,608	22.77	2,703,480	23.84	1.60
Placements from banks and non-bank financial institutions	350,000	2.90	360,000	3.18	-2.78
Borrowings	2,166,399	17.96	1,068,741	9.43	102.71
Deferred income	180,889	1.50	161,440	1.42	12.05

Property, plant and equipment: As at 31 December 2013, property, plant and equipment of the Group increased by RMB539,643,000 from the beginning of the Reporting Period. The increase was mainly because the Group increased investment in fixed assets such as production lines during the Reporting Period in order to enhance competitiveness of its products.

Available-for-sale financial assets: As at 31 December 2013, available-for-sale financial assets of the Group decreased by RMB21,869,000 from the beginning of the Reporting Period, which was mainly because the Group disposed of part of the financial assets such as securities it held in the previous period.

REPORT OF THE DIRECTORS (*continued*)

Loan receivables: As at 31 December 2013, loan receivables (non-current) and loan receivables (current) of the Group decreased by RMB30,293,000 and RMB38,115,000 respectively from the beginning of the Reporting Period, which was mainly because of the collection some loans made in previous period by YTO Finance during the Reporting Period.

Inventories: As at 31 December 2013, the inventories of the Group increased by RMB296,240,000 from the beginning of the Reporting Period, which was mainly because the Group increased relevant stocks in light of the forthcoming sales peak season in the coming year.

Trade and bill receivables: As at 31 December 2013, bill receivables and trade receivables decreased by RMB45,717,000 and increased by RMB32,497,000 respectively from the beginning of the Reporting Period, which was mainly due to the deferred payment of the State's subsidies for purchase of agricultural machinery products resulted from the change of the settlement method and at the same time the Group's strengthened power of sales and repurchase according to the payment progress of the subsidy.

Financial assets at fair value through profit or loss: As at 31 December 2013, the Group's financial assets at fair value through profit or loss increased by RMB52,294,000 from the beginning of the Reporting Period, which was mainly because of the new purchase of financial assets at fair value through profit or loss by YTO Finance.

Held-to-maturity financial assets: As at 31 December 2013, the Group's held-to-maturity financial assets decreased by RMB26,488,000 from the beginning of the Reporting Period, which mainly represented the disposal of corporate bonds by YTO Finance during the Reporting Period.

Trade and bill payables: As at 31 December 2013, the Group's bill payables and trade payables increased by RMB77,405,000 and decreased by RMB34,277,000 from the beginning of the Reporting Period, which was mainly due to the increase of bank acceptance bills in order to reduce financing costs and the payment of the purchase of the raw materials during the Reporting Period.

Borrowings: As at 31 December 2013, the Group's borrowings (current) and borrowings (non-current) increased by RMB141,196,000 and RMB956,462,000 respectively from the beginning of the Reporting Period, which was mainly because the Company issued corporate bonds during the Reporting Period.

REPORT OF THE DIRECTORS (*continued*)

(IV) Analysis of Core Competitiveness

The Company possesses the industry leading research and development capability, the most comprehensive ability in core parts and components manufacturing and a leading manufacturing system in China. We kept improving the company's marketing services network and the most influential "Dongfanghong" brand in China. During the Reporting Period, the Company's core competitiveness had no material change.

(V) Analysis of Investments

1. Overall analysis of external equity investments

During the Reporting Period, the Company's external equity investments totaled RMB1,200,000, representing a year-on-year increase of RMB220,000. The basic information on the investee companies are as follows:

Name	Investment amount (RMB)	Principal business	Shareholding percentage of the investee company
YTO Chuanlong (Sichuan) Agricultural Equipment Co., Ltd. (一拖川龍四川農業 裝備有限公司)	1,200,000	Design, manufacture, sale of tractors, mechanized agricultural and horticultural machinery, internal combustion engines and accessories and provision of related services; technology development, transfer and consulting services in relation to tractors and construction machinery; sale of automobiles (excluding passengers car holding seats below nine), automobile accessories, construction machinery and their parts and accessories.	20%
Total	1,200,000		

REPORT OF THE DIRECTORS *(continued)*

(1) Investment in securities

Unit: RMB

Number	Security		Short name of the security	Initial investment	Shares held	Closing	Percentage of total closing security investment	Profit/loss during the Reporting Period
	type	Security code		amount (RMB)		book value (RMB)	(%)	Period (RMB)
1	Share	601818	CEB	4,299,100	1,260,000	3,351,600	30.21	-418,320.00
2	Share	HK1140	OP Financial Investments	1,952,328	4,840,000	2,893,062	26.07	29,807.65
3	Bond	204100	Repurchase Of 1-Day National Debt	2,000,000	20,000	2,000,000	18.03	598,621.40
4	Share	601558	Sinovel Wind	2,722,322	170,440	700,508	6.31	-196,006.00
5	Share	HK2208	Xinjiang Goldwind	565,856	93,800	652,160	5.88	410,896.31
6	Share	HK0152	Shenzhen International	452,843	600,000	457,743	4.13	20,917.82
7	Share	HK0726	South East Group	149,998	300,000	174,603	1.57	105,372.67
8	Share	HK1062	China Development Bank International Investment	162,928	300,000	174,603	1.57	14,369.00
9	Share	HK2308	EVOC Intelligent	186,121	276,000	167,147	1.51	-24,155.29
10	Share	HK0042	NE Electric	311,479	200,000	135,278	1.22	-25,544.89
Other securities investment held at the end of the Reporting Period				2,016,587	/	388,555.97	3.50	-19,053.29
Gain/loss in securities investment sold during the Reporting Period				/	/	/	/	887.99
Total				14,819,562	/	11,095,259.97	100	497,793.37

REPORT OF THE DIRECTORS (*continued*)

(2) Equity interests in other listed companies

Unit: RMB

Security code	Short name of the security	Initial investment cost	Shareholding percentage in the company (%)	Closing book value	Profit/loss during the Reporting Period	Changes in equity interests during the Reporting Period	Accounting item	Sources of shares
601558	Sinovel Wind	12,320,100.00	0.31	2,250,471.60	-10,069,628.40	8,024,491.80	Available-for-sale financial assets	Purchase
601818	CEB	24,118,000.00	0.06	20,694,800.00	451,240.00	2,275,650.00	Available-for-sale financial assets	Purchase
601328	Bank of Communications	15,680,000.00	0.01	33,792,000.00	2,112,000.00	-8,228,000.00	Available-for-sale financial assets	Purchase
Total		<u>52,118,100.00</u>	<u>/</u>	<u>56,737,271.60</u>	<u>-7,506,388.40</u>	<u>2,072,141.80</u>		

REPORT OF THE DIRECTORS (*continued*)

(3) Equity interests in non-listed financial enterprises

Unit: RMB

Name of the investee	Initial investment amount (RMB)	Shares held (share)	Shareholding percentage (%)	Closing book value (RMB)	Profit/loss during the Reporting Period (RMB)	Changes in equity interests during the Reporting Period (RMB)	Accounting item	Sources of shares
Bank of Luoyang Co., Ltd.	78,129,341.41	107,480,000	4.89	78,129,341.41	16,122,000.00	/	Available-for-sale financial assets	Purchase
Shenyin & Wanguo Securities Co., Ltd.	500,000.00	404,856	0.006	500,000.00	/	/	Available-for-sale financial assets	Purchase
Total	<u>78,629,341.41</u>	<u>107,884,856</u>	<u>/</u>	<u>78,629,341.41</u>	<u>16,122,000.00</u>			

REPORT OF THE DIRECTORS (*continued*)

(4) Trading of shares of other listed companies

Unit: RMB

Stock name	Opening amount (share)	Purchase of shares during the Reporting Period (share)	Amount of capital utilized (RMB)	Sales of shares during the Reporting Period (share)	Closing amount (share)	Investment income generated (RMB)
Zhendong Pharmaceutical	246,000	—	—	246,000	—	-766,627.78
Sinovel Wind	1,365,516	—	—	817,956	547,560	-4,404,596.04
Jin Jiang Investment	129,907	—	—	129,907	—	1,510,653.28
Shanghai Material Trading	199,650	—	—	199,650	—	2,799,472.33
Pearl Oriental	280,960	—	—	280,960	—	1,854,175.24
Shenzhen International	—	600,000	457,115.01	—	600,000	8,943.65
EVOC Intelligent	200,000	76,000	50,422.32	—	276,000	1,804.70
Shenzhen High-Tech	500,000	—	—	500,000	—	145,075.26
China Renji Medical	5,000,000	—	—	5,000,000	—	-140,283.48
Xinjiang Goldwind	40,000	80,000	137,229.94	26,200	93,800	-5,556.64
Total	7,962,033	756,000	644,767.27	7,200,673	1,517,360	1,003,060.52

Note: The Company does not have investment gain from sale of subscribed new shares during the Reporting Period.

2. Entrusted assets management and investments in derivatives by non-financial companies

(1) Overall entrusted assets management

Unit: RMB0'000

Amount of entrusted assets at the beginning of the Reporting Period	Entrusted assets managed during the Reporting Period	The actual amount of principal of the entrusted assets recovered	Amount of entrusted assets at the end of the Reporting Period
0	32,941	32,941	0

REPORT OF THE DIRECTORS (*continued*)

Details of the entrusted assets management during the Reporting Period are as follows:

Unit: 0'000 Currency: RMB

Name of the partner	Product categories of entrusted assets	Amount of entrusted assets	Commencement		Calculation method of remuneration	Estimated returns	Actual principal recovered	Actual revenue earned	Whether legally obtained	Amount provided for impairment	Whether a connected transaction	Whether involved in litigation	Sources of fund and specify whether	Connected relationship
			date of the entrusted assets management	Expiry date of the entrusted assets management									from the funds raised	
Luoyang Jinghua Branch of Bank of Communications (中國交通銀行洛陽景華支行)	Principal-preservation short-term wealth management	3,900	2013.06.28	2013.08.02	As agreed on contract	23.19	3,900	23.19	Yes	0	No	No	Funds raised	Nil
Luoyang Huashan Road Branch of China Construction Bank (中國建設銀行洛陽華山路支行)	Principal-preservation short-term wealth management	8,921	2013.06.26	2013.07.29	As agreed on contract	50.01	8921	50.01	Yes	0	No	No	Funds raised	Nil
Luoyang Huashan Branch of Industrial and Commercial Bank of China (中國工商銀行洛陽華山支行)	Principal-preservation short-term wealth management	3,520	2013.07.19	2013.08.27	As agreed on contract	18.13	3,520	18.13	Yes	0	No	No	Funds raised	Nil
Luoyang Huashan Road Branch of China Construction Bank (中國建設銀行洛陽華山路支行)	Principal-preservation short-term wealth management	8,600	2013.07.30	2013.09.02	As agreed on contract	38.45	8,600	38.45	Yes	0	No	No	Funds raised	Nil
Luoyang Huashan Road Branch of China Construction Bank (中國建設銀行洛陽華山路支行)	Principal-preservation short-term wealth management	8,000	2013.10.22	2013.12.25	As agreed on contract	63.12	8,000	63.12	Yes	0	No	No	Funds raised	Nil
Total		32,941	/	/		192.9	32,941	192.9	/					

Cumulative amount of principal and revenue overdue (RMB)

0

REPORT OF THE DIRECTORS (*continued*)

(2) Entrusted loans

Unit: RMB0'000

Amount of entrusted loan at the beginning of the Reporting Period	Entrusted loan made during the Reporting Period	The actual amount of principal of the entrusted loan recovered	Amount of entrusted loan at the end of the Reporting Period
10,700	20,700	20,700	10,700

Details of the entrusted loans during the Reporting Period are as follows:

Unit: 0'000 Currency: RMB

Name of borrower	Amount of entrusted loan	Term of the loan	Interest rate of the loan	Uses of the loan	Security or guarantor	Whether over due	Whether connected transaction	Whether term extended	Whether any litigation	Sources of fund and specify whether from the funds raised	Connected relationship	Expected rate of return	Gain/loss
YTO Transportation	400	One year	7.20%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	Controlled subsidiary	7.20%	Gain
YTO Forklift	300	One year	7.20%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	wholly owned subsidiary	7.20%	Gain
YTO Shentong	2,000	Half year	7.28%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	wholly owned subsidiary	7.28%	Gain
YTO Shentong	2,000	Half year	7.28%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	wholly owned subsidiary	7.28%	Gain
YTO Shentong	2,000	Half year	7.28%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	wholly owned subsidiary	7.28%	Gain
YTO Shentong	4,000	One year	7.28%	Production and operation	Secured by assets	No	No	No	No	Not funds raised	wholly owned subsidiary	7.28%	Gain

REPORT OF THE DIRECTORS (*continued*)

(3) Other investment, assets management and investments in derivatives

Unit: RMB

Type of investment funds	Source of funds	Signing party	Amount of investment	Term	Product type	Investment gain/loss	Whether any litigation
Trust	Internal resources	Zhongyuan Trust	29,000,000.00	18 months	Zhongyuan Trust Product Yuhua Project (宇華項目)	1,315,726.04	No
Trust	Internal resources	Zhongyuan Trust	40,000,000.00	14 months	Zhongyuan Trust Product Xinwangda Project (欣旺達項目)	3,999,999.98	No
Trust	Internal resources	Zhongyuan Trust	50,000,000.00	6 months	Zhongyuan Trust Product Sanxingbaoye Project (三鑫實業項目)	2,288,888.89	No
Trust	Internal resources	Zhongyuan Trust	99,000,000.00	15 months	Zhongyuan Trust Product Guotai Paper Industry Project (國泰紙業項目)	5,058,493.15	No
Trust	Internal resources	Zhongyuan Trust	30,000,000.00	14 months	Zhongyuan Trust Product Xingtian Project (興田項目)	1,006,799.08	No
Trust	Internal resources	Zhongyuan Trust	100,000,000.00	6 months	Zhongyuan Trust Product Zhengzhou Aerial Port Zone Project (鄭州航空港區項目)	—	No

REPORT OF THE DIRECTORS (*continued*)

3. Use of proceeds from share issue

(1) Overall status of uses of proceeds from share issue

Unit: 0'000 Currency: RMB

Year of fundraising	Fundraising method	Total proceeds	Amount		Total unutilized amount	Use of the unutilized proceeds
			Total amount used in this year	used on an accumulative basis		
2012	Initial public offering	81,000	8,538.9	45,903.13	31,470.18	Idle proceeds of RMB77million will be used to temporarily replenish working capital after being approved by the Board. The remaining proceeds will be deposited in the designated bank account.

(2) Use of proceeds by the projects intended to be financed by the raised proceeds

Unit: 0'000 Currency: RMB

Project name	Any changes to the project	Intended investment amount of proceeds	Investment in this year	Accumulative investment amount	Whether in line with the schedule	Project schedule	Expected return	Profit generated	Whether in line with expected return	Explanations on failures in meeting the schedule or expected return	Reason for changes and explanation on the change procedures
Hi-powered agricultural diesel engines project	Yes	26,000.00	5,359.40	26,000.00	No	100	—	—	—	Under construction	Approved in the 2013 second extraordinary general meeting of the Company
The project on establishment of tractors assembly station(s) in Xinjiang	No	11,000.00	33.33	4,530.52	No	41.19	—	—	—	Under construction	No change
The project on enhancement of the core capability of new wheeled tractors	No	30,000.00	2,724.64	14,951.07	No	49.84	—	—	—	Under construction	No change
The project on upgrading, capacity-enhancement and improvement of the fuel injection system products	No	10,373.31	421.54	421.54	Yes	4.06	—	—	—	Under construction	No change
Total		77,773.31	8,538.91	45,903.13							

REPORT OF THE DIRECTORS *(continued)*

The Company made additional capital contribution to YTO Diesel by way of constructed assets of the hi-powered agricultural diesel engine project, which was completed in September 2013. For the details of deposit and uses of the raised proceeds of the Company during the Reporting Period, please refer to the “special report on the deposit and actual use of raised proceeds of the Company”.

4. Analysis of major subsidiaries and equity participating companies

(1) Information on major subsidiaries

Unit: 0'000 Currency: RMB, unless otherwise specified

Name	Registered capital	Principal business	For the year ended 31 December 2013		
			Total assets	Net assets	Net profit
YTO Finance	50,000	Provision of financial services	335,899	65,274	5,274
YTO Diesel	USD1,600	Manufacture and sale of engines	153,008	75,836	9,377
Jiangyan Power	20,000	Manufacture and sale of multi-bore diesel engines and small castings	51,237	27,395	8,919
YTO Injection Pump	16,192	Manufacture and sale of fuel injection products	33,213	22,768	205
Tractors Research Company	44,500	Development and research of tractor product	67,817	60,359	1,254
YTO International	6,600	Sale of agricultural machineries	12,141	6,376	-658
YTO Flag	12,000	Manufacture and sale of agricultural machinery cover	38,944	26,452	3,033
YTO Axle	5,000	Production and sale of agricultural machinery bridge box	35,413	26,709	4,213
YTO France	EUR3,460	Research and development, manufacture and sale of powershift transmission specifically for hi-powered tractors	23,729	15,939	-3,726
YTO Foundry	16,883	Processing and marketing of casting, rough and semi-finished products	43,557	12,317	448
Changtuo Company	28,200	Manufacture and sale of tractors and parts	23,200	17,941	-3,074
YTO Shentong	5,300	Manufacturing and sale of mining trucks and other agricultural machinery products	29,192	-4,869	-7,521

REPORT OF THE DIRECTORS (*continued*)

(2) Acquisition and disposal of subsidiaries during the year

During the Reporting Period, the Company completed the acquisition of 100% equity interests in YTO Foundry and consolidated it into the consolidated financial statements of the Company.

In March 2013, the Company held one third equity interests of Changtuo Company after making additional capital contribution to Changtuo Company, together with the one third equity interests entrusted by Sinomach, the Company held two thirds of the controlling right of Changtuo Company. The Company has consolidated Changtuo Company into the consolidated financial statements of the Company.

According to "Civil Ruling Paper"((2009) Jiang Min Po Zi No.0001-5) ((2009)姜民破字第0001-5號《民事裁定書》) issued by the Jiangyan People's Court of Jiangsu Province (江蘇省姜堰市人民法院), Jiangyan Power, the controlled subsidiary of the Company, participated in the reorganization of Yangdong Company for a term of three years. On 30 November 2013, according to the "Civil Ruling Paper"((2009) Jiang Min Po Zi No.0001-20) ((2009)姜民破字第0001--20號《民事裁定書》) issued by the Jiangyan People's Court of Jiangsu Province, implementation of the reorganization plan for Yangdong Company was completed. The Company consolidated Yangdong Power through Jiangyan Power into the consolidated financial statements of the Company in the Reporting Period.

During the Reporting Period, the Company integrated the business of power machinery, and contributed the entire 42% equity interests held in YTO Power Machinery to YTO Diesel, thus YTO Power Machinery became a wholly owned subsidiary of YTO Diesel.



REPORT OF THE DIRECTORS (*continued*)

(3) Subsidiaries contributing more than 10% to the Company's net profit

Unit: RMB0'000

Name	Revenue	Operating profit	Net profit
YTO Finance	10,616	7,013	5,274
YTO Diesel	175,235	9,929	9,377
Jiangyan Power	43,962	336	8,919
YTO Flag	64,879	2,787	3,033
YTO Axle	49,483	5,322	4,213
YTO France	14,699	-5,542	-3,726
Changtuo Company	2,174	-3,060	-3,074
YTO Shentong	5,680	-7,482	-7,521

(4) Analysis on subsidiaries with over 30% change in their operating results

Jiangyan Power: during the Reporting Period, the company actively explored the external market and strengthened the facilities of the internal market, which resulted in a significant increase in the sales volume of products and a significant year-on-year increase in total revenue and profit. At the same time, the company merged with Yangdong Company resulting in a greater consolidated revenue. For the year 2013, the operating revenue was RMB439,620,000, representing a year-on-year increase of 41.5%; total profit was RMB89,060,000, representing a year-on-year increase of RMB93,690,000.

CAMACO: during the Reporting Period, the company seized the opportunity and obtained orders of exportation to Ethiopia, thus greater growth was witnessed in its export business. For the year 2013, the operating revenue was RMB339,660,000, representing a year-on-year increase of 129%; total profit was RMB28,680,000, representing a year-on-year increase of RMB23,860,000.

YTO Shentong: during the Reporting Period, due to the huge drop of sales of mining truck products and the provisions made for trade receivables, the company recorded relatively great decline in its operating revenue and total profit. For the year 2013, the operating revenue was RMB56,800,000, representing a year-on-year decrease of 82%; total profit was RMB-75,170,000, representing a year-on-year decrease of RMB75,950,000.

REPORT OF THE DIRECTORS (*continued*)

YTO Axle: the company was founded in October 2012 and only run for short period of time in the year 2012. Therefore, the annual revenue and operating profit increased substantially in 2013. For the year 2013, the operating revenue was RMB494,830,000, representing a year-on-year increase of 704.7%; total profit was RMB54,040,000, representing a year-on-year increase of RMB56,150,000.

YTO Foundry: though improving operational efficiency, reducing spoiled product rate of spoil-vulnerable parts and components and optimizing the structure of material feeding, the company comprehensively improved the management level and recorded a year-on-year increase in profit. For the year 2013, the operating revenue was RMB745,430,000, representing a year-on-year increase of 9.9%; total profit was RMB4,490,000, representing a year-on-year increase of RMB30,180,000.

(5) Projects not funded by proceeds from fundraising activities

During the Reporting Period, the Company did not have any significant project for which the total investment exceeding 10% of the audited net assets of the Company as at the end of the previous year and which was not funded by proceeds from fundraising activities.

II. THE BOARD'S DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

(I) Competition dynamics and development trend of the industry

China has put unwavering efforts in food security, land transfer, ecology protection of agriculture and the building of a new operation system of agriculture and supported the adjustment of the structure of the agricultural industry. The market demand for large-scale agricultural machinery is expected to see solid growth following the greater consumer demand released from agricultural machinery cooperatives, specialized households of agricultural machinery and family farms. The development of agricultural machinery industry will have a bright prospect.



REPORT OF THE DIRECTORS (*continued*)

The competition in the industry has involved more complex factors. As for the competitor, international sizeable agricultural machinery enterprises and domestic leading enterprises have crossed the boundaries of nation and industry to participate in the competition, which means decrease in market concentration. From the market conditions in the recent years, purchasers considered more about value rather than price in the decision making. Accordingly, the competition concept in the agricultural machinery industry will be focused on value instead of price. As for the competition measures, financial leasing, credit selling and other marketing methods have become the basic tools. The competition in the market have moved beyond the competitions in prices and products towards the competitions in the overall strength of enterprise and its capacity to create value.

After ten years prime development period, the sub-industry of agricultural machinery including the tractor industry which had a relatively fast development previously gradually slowed down in its growth due to the increase in ownership. As there are certain diversions of subsidies toward weak links in agricultural mechanization operations, the agricultural machinery industry will see a diversified development:

The first is that weak links in agricultural mechanization operations will enjoy a fast development. Agricultural mechanization applied in the entire process and cash crop will be the direction for development;

The second is that as the subsidies for tractors will be further diluted, the tractor industry will go through a phase of moderate development and restructuring, which means the future development will focus on the update and upgrade of the existing products. In the meantime, the land transfer will bring about more large-scale and intensive operations. The development of organizations that provide agricultural machineries increased the demand for new-type tractors featuring hi-powered, advanced and applicable techniques, and high quality. And fueled by the needs from the upgrade of low-powered tractors, the paddy and hilly lands in the South China, and the development of cash crops such as forestry and fruit industry, the mid-powered tractors with compact structure and diverse functions will be highly welcomed. The low-powered tractor market will focus on the market segments of gardening and greenhouse.

REPORT OF THE DIRECTORS (*continued*)

(II) Development strategy of the Company

Through implementing the strategic mindset of “focusing on the core areas for stronger businesses” (聚核鑄強), the Company will focus on core resources, core business and core markets. Through focusing on the improvement of independent innovation ability, marketing ability, talents retaining ability and international operation ability, the Company will continuously enhance its operation capabilities. The Company intends to strengthen its sales of tractors and facilities, the business of diesel engines, the golden supply chain system of parts and components and both the domestic and overseas markets. Meanwhile, we will take full advantage of the resources of capital market platform and effectively consolidate relevant resources to create overall industrial chain competitiveness. We are committed in becoming the leader in the world field of agricultural equipment.

(III) Operation plan

1. General working mindset

We will thoroughly apply and implement the strategic mindset of “focusing on the core areas for stronger businesses” (聚核鑄強) and the annual operation policy of “adjusting structure, improving quality, transferring mechanism and increasing efficiency”, and promote the marketing innovation based on customer’s demand. We will focus on the commercialization of powershift transmission products and promote the adjustment of product structure. We will make the improvement of quality as the motivation and promote the improvement of quality by benchmarking with the product standard of international advanced enterprises. We will carry out extensive activities for optimizing costs, reduce losses and increase profits; improve the incentive mechanism, strengthen strategic synergy and improve the overall competitive advantages of core business, so as to ensure the realization of annual operation target.



REPORT OF THE DIRECTORS (*continued*)

2. Major work measures

Strengthen market development. I. Strengthen market research and marketing planning. The increase in sales volume of hi-powered and mid-powered wheeled tractors should be higher than the industry average and that of major competitors; the Company will place focus on channel and project sales, strengthen the construction of international market development capability and promote sales volume of the Company's products. II. Renovate the development mode of accessories. The Company will proactively expand the after-sales market of machineries, optimize the accessories sales system and enhance the sales volume of accessories. III. Promote competitive advantages of services. The Company will speed up the construction of accessories central warehouse and promote accessories guarantee capability. IV. Strengthen market risk control. The Company will intensify dealer evaluation and dynamic management, well perform total trade receivables control and aged analysis, prevent exchange loss of export business, and balance the relationship between growth and risk control.

Continuously push forward the pace of product structure adjustment and accelerate the commercialization of high-end products batch sales commercialization. The Company will improve the research and development management mechanism and the efficiency of research and development system. The Company will well conduct new product promotion and guarantee the completion of new product launch plan. The Company will emphasize on batch sales commercialization of powershift transmission tractors, accelerate the commercialization of full hydrostatic and compact mid-powered wheeled tractor products and optimize orchard and garden tractors development. The Company will accelerate electronically controlled diesel engine product support, continue to promote the national III emission diesel switching operation and seize the opportunities in the industry. The Company will focus on technology upgrades of major products and provide comprehensive solutions, and actively carry out international cooperation.

The Company solidly improve management to enhance profitability. The Company will continue to promote cost optimization, cost reduction on procurement and technology. The Company will further strength the integration of resources, improve the internal efficiency of resource utilization and accelerate the disposal of inefficient assets. The Company will strengthen budget management, standardized costing processes and improve cost structure so as to enhance the ability to support business decisions based on improving costing accuracy and timeliness.

REPORT OF THE DIRECTORS (*continued*)

(IV) Capital required for maintaining existing business and completing investment project under construction

In 2013, the Company issued corporate bonds to finance RMB1.5 billion used for adjusting the Company's liability structure and replenish working capital of the Company. In 2014, the Company will guarantee the fund demands of operation through bank financing, bill financing, acceleration of turnover of funds and reasonable arrangement of fund use plan according to plans of manufacture, operation and investment.

(V) Potential risks

Please refer to the section headed "IMPORTANT NOTICE" in this Annual Report.

III. EXPLANATION OF THE BOARD ON THE ACCOUNTING FIRM'S "NON-STANDARD AUDIT REPORT"

(I) Explanation of the Board and the Board of Supervisors on the accounting firm's "non-standard audit report"

N/A

(II) Analysis and explanation of the Board for reasons and impact of changes in accounting policy, accounting estimates and auditing methods

N/A

(III) Analysis and explanation of the Board for reasons and impact of correction of major errors in the previous period

N/A

REPORT OF THE DIRECTORS (*continued*)

IV. PLANS FOR DISTRIBUTION OF PROFIT OR CONVERSION OF RESERVE INTO CAPITAL

(I) Formulation and implementation of or adjustment to cash dividend policy

The existing Articles of Association of the Company specifies that the Company adopts consistent and stable profit distribution policy; that the Company may distribute dividends by way of cash, bonus shares or a combination of both; that the annual profits distributed by the Company by way of cash shall not be less than 25% of the profit available for distribution for the year (the lower of those in the financial statements under the PRC accounting standards and the international accounting standards), provided that the capital needs for the Company's normal production and operation are satisfied and there is no such events as material investment plan or material cash expense; and that the annual profit distribution plan of the Company shall be formulated by the Board and subject to the consideration and approval by shareholders in general meeting.

In the Reporting Period, the Company implemented the 2012 profit distribution plan to distribute dividends amounting to RMB99.59 million to all shareholders of the Company, representing 28.53% of net profit attributable to shareholders of the Company as set out in the consolidated financial statements of the Company for 2012. The profit distribution has completed in July 2013.

(II) Where the Company records profit for the Reporting Period and has positive undistributed profit but does not put forward any plan for cash distribution, the Company should give a detailed disclosure in respect of the reasons and the purpose and use plan of the undistributed profit

N/A

REPORT OF THE DIRECTORS (*continued*)**(III) Cash distribution or conversion of capital reserve into share capital and profit distribution by the Company in the last three years***Unit: RMB*

Year	Number of bonus shares for every 10 shares (shares)	Dividend for every 10 shares (tax inclusive) (RMB)	Number of conversion shares for every 10 shares (shares)	Amount of cash dividends (tax inclusive)	Net profit attributable to the shareholders of the Company as shown in the consolidated financial statements of the Company for the relevant year	Percentage of net profit attributable to the shareholders of the Company as shown in the consolidated financial statements of the Company (%)
2013	0	0.6	0	59,754,000.00	221,949,807.88	26.92
2012	0	1.0	0	99,590,000.00	349,058,312.10	28.53
2011	0	0	0	0	440,051,003.90	—

As the date of the 2013 annual general meeting has not been determined, the relevant record date will be announced later. If the aforesaid proposal is approved by the shareholders, then according to the Income Tax Law of the People's Republic of China effective from 2008 and the implementation rules thereof, the Notice on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders which are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008 and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No.348) issued on 28 June 2011, the final dividend payable to the non-resident enterprise shareholders and individual shareholders whose names appear on the registers of members of the Company's H shares is subject to withholding of enterprise income tax or individual income tax, both at a rate of 10%. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees or trustees and other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax of 10%.

REPORT OF THE DIRECTORS *(continued)*

V. FULFILLMENT OF SOCIAL RESPONSIBILITY

(I) Work on social responsibility

For the detailed work of the Company on social responsibility, please refer to the “Social Responsibility Report of First Tractor Company Limited in 2013” as published at the website of Shanghai Stock Exchange and the Company.

(II) Explanation on environmental protection efforts by the Company and its subsidiaries included in heavily polluting industries designated by the national environmental protection authority

N/A

SIGNIFICANT EVENTS

I. MATERIAL LITIGATION, ARBITRATION AND MATTERS COMMONLY QUESTIONED BY MEDIA

There was no material litigation, arbitration and matters commonly questioned by media during the Reporting Period.

II. FUND MISAPPROPRIATION AND DEVELOPMENT IN ITS RECOVERY DURING THE REPORTING PERIOD

There was no fund misappropriation and development in its recovery during the Reporting Period.

III. BANKRUPTCY REORGANIZATION MATTERS

The Company had no bankruptcy reorganization matters during the Reporting Period.

IV. ASSETS TRANSACTIONS AND BUSINESS COMBINATIONS

The Company was not engaged in any acquisition or disposal of assets, assets swap or business combination during the Reporting Period.

V. EQUITY INCENTIVES AND ITS EFFECTS

N/A



SIGNIFICANT EVENTS (*continued*)

VI. MATERIAL CONNECTED TRANSACTIONS

(I) Connected transactions related to ordinary and usual operations

1. Matters which have been disclosed in the announcements of the Company and which have further development or changes

Unit: RMB'000

Date of Approval	Counterparty	Relationship	Whether the transaction falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules	Content of the connected transaction	Pricing principle	Estimated annual cap for 2013	Actual transaction amount in 2013	Percentage in the total amount of the same type of transactions (%)
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Sales of goods to the Company and its subsidiaries	the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up	1,350,000	764,694	9.4
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Provision of certain welfare, storage, transportation, consumption services, administrative services for retired employees etc. to the Company and its subsidiaries	the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up	226,000	158,387	83
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Provision of energy and related services to the Company and its subsidiaries	the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up	250,000	202,450	94
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Purchase of goods from the Company and its subsidiaries	the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up	120,000	119,516	1.1
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Lease of properties to the Company and its subsidiaries	Market price; if there is no comparable market price, the rent to be determined based on the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises and the relevant taxes	10,000	5,843	80
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Lease of lands to the Company and its subsidiaries	Market price; if there is no comparable market price, the rent to be determined based on the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises and the relevant taxes	13,500	11,701	100
2012.12.20	Tractors Research Company	Associate of YTO	Continuing connected transaction	Provision of technology research and development, technology consultation and other technology services by Tractors Research Company to the Company	the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up	100,000	91,189	99.86

SIGNIFICANT EVENTS *(continued)*

Date of Approval	Counterparty	Relationship	Whether the transaction falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules	Content of the connected transaction	Pricing principle	Estimated annual cap for 2013	Actual transaction amount in 2013	Percentage in the total amount of the same type of transactions (%)
2013.3.27	YTO	Controlling shareholder	Continuing connected transaction	Provision of deposit services by YTO Finance to YTO	the rate prescribed by CBRC or the People's Bank of China ("PBOC"); if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services.	1,000,000	740,624	36
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Provision of loan services by YTO Finance to YTO	the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services.	640,000	569,620	46
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Provision of loan bills acceptance services by YTO Finance to YTO	the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services.	380,000	214,192	38
2012.12.20	YTO	Controlling shareholder	Continuing connected transaction	Provision of bills discounting services by YTO Finance to YTO	the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services.	430,000	72,000	21

Note: As authorized by Sinomach, YTO, on behalf of Sinomach, entered into relevant connected transaction agreements in connection with sales and purchase of goods, therefore, the estimated annual caps and actual transaction amounts for such connected transaction included the amounts of transactions between the Company and Sinomach and its subsidiaries.

SIGNIFICANT EVENTS (*continued*)

2. Matters not disclosed in the announcements of the Company

Unit: RMB0'000

Date	Counterparty	Relationship	Content of the connected transaction	Pricing principle	Estimated annual cap for 2013	Actual transaction amount in 2013
2012.12.20	YTO	Controlling shareholder	Lease of properties from the Company and its subsidiaries	Market price	100	16
2012.12.20	YTO	Controlling shareholder	Lease of land from the Company and its subsidiaries	Market price	50	10

Note: In accordance with relevant provisions under the Listing Rules of the Shanghai Stock Exchange and the Stock Exchange, the pricing principles of the above connected transactions are in line with the relevant provisions under the Listing Rules and the amounts do not meet the disclosure standard.

Having reviewed the records and data of the aforesaid continuing connected transactions, the independent non-executive Directors confirmed as follows:

- (a) the above continuing connected transactions were entered into in the ordinary and usual course of business of the Group;
- (b) the above continuing connected transactions were entered into on normal commercial terms (where applicable, as compared with transactions of similar nature carried out by similar entities in the PRC or, if no available transactions for comparison, on terms no less favourable than those offered by independent third parties of the Group); and
- (c) the above continuing connected transactions were conducted on terms of the agreements governing the relevant transactions, which are fair and reasonable and in the interests of the Company's shareholders as a whole.

SIGNIFICANT EVENTS *(continued)*

Confirmation by auditors

Having reviewed the aforesaid continuing connected transactions during the Reporting Period, the auditors of the Company have sent a letter to the Board confirming that the aforesaid continuing connected transactions:

- (a) had obtained the approval of the Board;
- (b) was conducted in accordance with the pricing policy of the Group and the relevant terms of the agreements; and
- (c) did not exceed the cap amounts as disclosed in the relevant announcements (if applicable, as approved by the independent shareholders of the Company) at any time during the Reporting Period.

Confirmation by Directors

The Directors (including independent non-executive Directors) confirmed that the aforesaid transactions were in the interests of the Company and its shareholders as whole and that none of them has any material interests in the aforesaid connected transactions.

Confirmation by the Company in relation to disclosure requirement

The Company confirmed it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(II) Connected transactions relating to assets acquisition or disposal

The Company was not engaged in any connected transaction relating to assets acquisition or disposal during the Reporting Period.

(III) Material connected transaction relating to external investments

During the Reporting Period, the Company made a unilateral capital contribution of RMB94,250,000 to Changtuo Company, of which RMB94,000,000 was included in the registered capital of Changtuo Company and RMB250,000 was included in the capital reserve of Changtuo Company. After the capital contribution, the registered capital of Changtuo Company amounted to RMB282 million, and the Company and Sinomach held 33.3% and 33.3% equity interest in Changtuo Company respectively.

(IV) Related creditor's right and debt transactions

N/A

SIGNIFICANT EVENTS *(continued)***VII. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF****(I) Custody, contracting and lease matters****1. Custody**

The Company contributed additional capital worth RMB94.25 million to Changtuo Company based on the appraised value of its net assets as at 31 March 2012. Following the capital injection, the Company holds 33.33% of Changtuo Company's equity. Pursuant to the Equity Custodian Agreement entered into between the Company, Sinomach and YTO, "the voting rights of such equity interests, supervision and management rights and other rights will be commissioned to the Company for execution from the date of acquisition of equity interests in Changtuo Company by Sinomach and YTO. Meanwhile, Sinomach and YTO undertook to start the necessary work in relation to transfer of all or part of their equity interests in Changtuo Company to the Company upon completion of capital contribution to Changtuo Company by the Company, and endeavor to urge the Company to complete the transfer of the aforementioned acquisition of equity interests as soon as possible."

During the Reporting Period, the Company has completed the capital contribution to Changtuo Company and commissioned management of 33.33% equity interests in Changtuo Company held by Sinomach. Given that Changtuo Company is still in the production and operation reform and recovery period and is still at a loss, equity custodying is able to satisfy the Company's control over this company. After analysis and argumentation, the management of the Company has reached a consensus with Sinomach through negotiation on that the transfer of equity interests will not be started before the business of Changtuo Company becomes stable.

2. Contracting

N/A

SIGNIFICANT EVENTS *(continued)***(II) Guarantees***Unit: RMB0'000***External guarantees provided by the Company (excluding guarantees provided for its subsidiaries)**

Guarantor	Relationship of the Guarantor with the Company	Beneficiary	Amount of the guarantee	Date of agreement	Type of guarantee	Whether discharged	Whether overdue	Whether any counter-guarantee	Whether related party	Connected relationship
The Company	Company headquarter	Business dealers of Quanchengtong (全程通)	36,190	2013.4.1	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Business dealers of Nongjiwang (農機網)	22,470	2013.4.1	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Business dealers of Dianpiaotong (電票通)	49,210	2013.3.8	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Business dealers of Changshangyin (廠商銀)	2,730	2013.7.24	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Mining truck users	16,000	2012.2.22	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Mining truck users	10,000	2012.4.29	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Agricultural machinery users	5,000	2013.1.28	Guarantee with joint liability	No	No	Yes	No	No
The Company	Company headquarter	Agricultural machinery users	5,000	2013.7.18	Guarantee with joint liability	/	/	/	/	/

SIGNIFICANT EVENTS (*continued*)

Total amount of the guarantees provided by the Company during the Reporting Period (excluding guarantees provided for its subsidiaries)	146,900
Total outstanding amount as at the end of the Reporting Period (a) (excluding guarantees provided for its subsidiaries)	43,310

Guarantees provided by the Company for its subsidiaries

Total amount of the guarantees provided by the Company to its subsidiaries during the Reporting Period	18,209.66
Total outstanding amount of the guarantees provided by the Company to its subsidiaries as at the end of the Reporting Period (b)	12,400

Total amount of the guarantees provided by the Company (including guarantees for its subsidiaries)

Total amount of guarantees (A+B)	55,710
Percentage of the total amount of guarantees to the net assets of the Company (%)	12.45
Of which:	
Amount of guarantees provided by the Company for its shareholders, de facto controller and related parties (C)	0
Amount of guarantees directly or indirectly provided for parties with a gearing ratio exceeding 70% (d)	6,400
The portion of total amount of guarantee in excess of 50% of net assets (e)	0
Total amount of the above three categories of guarantees (C+D+E)	6,400

(III) Assets Pledge

At 31 December 2013, certain of the Group's land use rights with the total carrying value of approximately RMB153,936,000 (2012: nil), were pledged to secure borrowings granted to the Group.

At 31 December 2013, certain of the Group's bills receivable with the carrying value of approximately RMB142,655,000 (2012: nil), were pledged to secure borrowings granted to the Group.

The Group pledged certain bills receivable of RMB209,826,000 and deposits of RMB129,915,000 to secure bills payable of RMB654,281,000 of the Group (2012: approximately RMB576,875,000 (restated)).

SIGNIFICANT EVENTS *(continued)***(IV) Other Material Contracts**

During the Reporting Period, save as disclosed herein, neither the Company nor any of its subsidiaries entered into any contracts of significance with the controlling shareholder of the Company or its subsidiaries.

VIII. FULFILLMENT OF UNDERTAKINGS

Undertakings made by the Company, shareholder holding 5% or more of the Company's shares, controlling shareholder and ultimate controller during or subsisting to the Reporting Period

Background	Type	Party making the undertaking	Content	Explanation on performance
Undertaking related to the initial public offering	Solutions to business competition	The Company	Commencing from 11 January 2012, YTO (Luoyang) Farming Implements Company Limited no longer engages in the purchase, assembly and sales of farming implements products other than the supporting sale of the farming implements products which have been purchased or ordered. The Company and all its controlled subsidiaries shall not engage in the processing, production or assembly of farming implements, except the supporting sales and relevant procurement.	Honoring commitment and normal performance
Undertaking related to the initial public offering	Solutions to business competition	YTO	YTO will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where YTO or other enterprises controlled by it may bring unfair impact on the Company in respect of market share, business opportunity and resources allocation, YTO will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Honoring commitment and normal performance
Undertaking related to the initial public offering	Solutions to business competition	Sinomach	Sinomach will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where Sinomach or other enterprises controlled by it may bring unfair impact on the Company in respect of market share, business opportunity and resources allocation, Sinomach will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Honoring commitment and normal performance



SIGNIFICANT EVENTS (*continued*)

Background	Type	Party making the undertaking	Content	Explanation on performance
Undertaking related to the initial public offering	Restriction trading of shares	Sinomach	Within 36 months after the date of initial public offering, listing and trading of A shares of the Company, Sinomach will not transfer or engage others to manage the shares of the Company issued before the initial public offering of shares of the Company directly and indirectly held by Sinomach, nor allow the Company to repurchase such shares.	Honoring commitment and normal performance
Undertaking related to the initial public offering	Restriction trading of shares	YTO	Within 36 months after the date of initial public offering, listing and trading of A shares of the Company, YTO will not transfer or engage others to manage the shares of the Company issued before the initial public offering of shares of the Company directly and indirectly held by YTO, nor allow the Company to repurchase such shares.	Honoring commitment and normal performance
Undertaking related to the initial public offering	Size of deposit and loan	YTO	On 16 August 2010, YTO and YTO Finance entered into the Deposit Agreement and Loan Agreement, which stipulated the annual cap of loan obtained by YTO and its subsidiaries? (excluding the Company) from YTO Finance. YTO further undertook that, on the basis of the aforesaid Deposit Agreement and Loan Agreement and cap amount of connected transactions, the loan of YTO and its subsidiaries (excluding the Company) obtained from YTO Finance will be less than their deposits placed with YTO Finance, and ensured the safety of its subsidiaries' loans through various measures.	Honoring commitment and normal performance
Undertaking related to the initial public offering	Improvement of asset integrity	YTO	As to the patents related to the products of the Company and its subsidiaries which are in the process of application, YTO undertook to transfer the relevant 50 patents to the Company at nil consideration upon completion of the applications. Except for the aforesaid patents which are in the process of application, YTO will no longer apply for patents related to the products of the Company and its subsidiaries in its own name. YTO will transfer to the Company at nil consideration any such new technologies related to the products of the Company and its subsidiaries that may be developed by YTO after issue of the undertaking letter, and patents in respect of such technologies will be applied for directly in the name of the Company.	Honoring commitment and normal performance

SIGNIFICANT EVENTS *(continued)***IX. APPOINTMENT OR DISMISSAL OF ACCOUNTING FIRM**

On 11 June 2010, at the 2009 annual general meeting of the Company, UHY Vocation HK CPA Limited ("**UHY Hong Kong**") and Vocation International Certified Public Accountants Company Limited ("**VICPA**") were appointed as the international and PRC auditors of the Company respectively for the year 2010.

On 28 January 2011, it was approved at the extraordinary general meeting of the Company that the international auditor of the Company for the year 2010 was changed from UHY Hong Kong to Baker Tilly Hong Kong Limited ("**Baker Tilly Hong Kong**") due to the merger of UHY Hong Kong with Baker Tilly Hong Kong (Details of which were set out in the announcement of the Company dated 10 December 2010). In 2011, VICPA has changed its English name to Baker Tilly China. Baker Tilly China later changed its Chinese name to 天職國際會計師事務所(特殊普通合夥)(Baker Tilly China Certified Public Accountants).

During the Reporting Period, Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong act as the PRC and international auditors of the Company respectively and are responsible to audit the financial statements of the Group for the period ended 31 December 2013 in accordance with the China Accounting Standards for Business Enterprises ("**CASBE**") and Hong Kong Financial Reporting Standards ("**HKFRS**") respectively.

Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong provided the following audit and non-audit services to the Group in 2013:

- (i) Audit services with remuneration of approximately RMB2.4 million (Note);
- (ii) Internal control audit services with remuneration of approximately RMB0.48 million; and
- (iii) Non-audit services — tax advisory services with remuneration of approximately RMB7,500.

Note: Including remuneration of approximately RMB40,000 for the compliance review services of continuing connected transactions and results announcement.



SIGNIFICANT EVENTS (*continued*)**X. EXPLANATIONS ON OTHER SIGNIFICANT EVENTS****(I) During the Reporting Period, the Company issued corporate bonds of RMB1.5 billion**

On 5 February 2013, the Company obtained the “Approval on Public Issue of Corporate Bonds by First Tractor Company Limited” (Zheng Jian Xu Ke [2013] No.89) from CSRC, which approved the public issue of corporate bonds with face value of no more than RMB1.5 billion by the Company. The corporate bonds will be issued in tranches.

On 6 March 2013, the Company completed the issue of the 2012 first tranche of corporate bonds with an aggregate principal amount of RMB800 million and a maturity of five years, and attaching options for the issuer to increase the coupon rate at the end of the third year and for the holders to sell back the corporate bonds. The coupon rate of the corporate bonds is a fixed rate of 4.8%. The net proceeds, after deducting the issue related expenses, amounted to RMB794,550,000. (for details, please refer to the Announcement on the Issue of Corporate Bonds (First Tranche) of 2012, Announcement on the Coupon Rate of Corporate Bonds (First Tranche) of 2012, Announcement on the Results of the Issue of Corporate Bonds (First Tranche) of 2012 and Announcement on the Listing of Corporate Bonds (First Tranche) of 2012 Issued through Public Offering published by the Company on the website of the Shanghai Stock Exchange and on the China Securities Journal and Shanghai Securities News on 28 February 2013, 4 March 2013, 7 March 2013 and 2 April 2013 respectively)

On 3 June 2013, the Company completed the issue of the 2012 second tranche of corporate bonds with an aggregate principal amount of RMB700 million and a maturity of five years, and attaching options for the issuer to increase the coupon rate at the end of the third year and for the holders to sell back the corporate bonds. The coupon rate of the corporate bonds is a fixed rate of 4.5%. The net proceeds, after deducting the issue related expenses, amounted to RMB695,100,000.

SIGNIFICANT EVENTS *(continued)***(II) During the Reporting Period, the bankruptcy reorganization of Yangdong Company was completed**

In March 2010, the Company, YTO Diesel and Jiangyan Power, both being controlled subsidiaries of the Company, participated in the bankruptcy reorganization of Yangdong Company as investors. In December 2013, Yangdong Company received a Civil Ruling Paper (2009) Jiang Min Po Zi No. 0001-20 ((2009)姜民破字第0001--20號《民事裁定書》) issued by the People's Court of Jiangyan District, Taizhou City, Jiangsu Province, which judged the completion of execution of reorganization plan of Yangdong Company. The Company consolidated Yangdong Company into the Company's consolidated financial statements through Jiangyan Power in 2013.

(III) During the Reporting Period, the Company completed the reorganization of YTO Power Machinery

In July 2013, the Company contributed additional capital to YTO Diesel, a controlled subsidiary of the Company, with certain constructed assets of hi-powered agricultural diesel engines project, a proceeds-financed project, and the 42% equity interest in YTO Power Machinery held by the Company based on the appraised value (details are set out in the Announcement In relation to the Connected Transaction of Capital Contribution to a Subsidiary of First Tractor published by the Company on the website of the Shanghai Stock Exchange, China Securities Journal and Shanghai Securities News on 12 July 2013). The capital contribution was completed in September 2013 (details are set out in the Announcement in relation to the Capital Contribution and Progress of Connected Transaction of First Tractor published by the Company on the website of the Shanghai Stock Exchange, China Securities Journal and Shanghai Securities News on 7 September 2013). Upon completion of reorganization, the Company's equity interest in YTO Diesel increased from 58.8% to 67.942% and the Company no longer held equity interest in YTO Power Machinery. YTO Power Machinery became a wholly owned subsidiary of YTO Diesel.

XI. PUNISHMENT ON THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDER HOLDING 5% OR MORE OF THE SHARES, DE FACTO CONTROLLER AND ACQUIRING PARTY AND THE RECTIFICATION THEREOF

During the year, neither the Company nor its Directors, Supervisors, senior management, shareholder holding 5% or more of the shares, de facto controller or acquiring party was a subject of the inspect, administrative penalty or circulation of a notice of criticism by CSRC or public censure by the stock exchange.



CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

I CHANGES IN SHARES DURING THE REPORTING PERIOD

(I) Table of changes in shares

1. Table of changes in shares

Unit: Share

	Before movement		Increase/decrease (+/-)					After movement	
	Number of Shares	Percentage (%)	New issue	Bonus issue	Capitalisation of capital reserves	Others	Sub-total	Number of Shares	Percentage (%)
(1) Shares subject to									
selling restrictions	443,910,000	44.574	—	—	—	—	—	443,910,000	44.574
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned legal persons	443,910,000	44.574	—	—	—	—	—	443,910,000	44.574
3. Shares held by other domestic investors	—	—	—	—	—	—	—	—	—
Of which: Shares held by domestic non-state-owned legal persons	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign investors	—	—	—	—	—	—	—	—	—
Of which: Shares held by foreign legal persons	—	—	—	—	—	—	—	—	—
Shares held by foreign natural persons	—	—	—	—	—	—	—	—	—
(2) Tradable shares not subject to									
selling restrictions	551,990,000	55.426	—	—	—	—	—	551,990,000	55.426
1. RMB-denominated ordinary shares	150,000,000	15.062	—	—	—	—	—	150,000,000	15.062
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	401,990,000	40.026	—	—	—	—	—	401,990,000	40.026
4. Others	—	—	—	—	—	—	—	—	—
(3) Total	995,900,000	100.00	—	—	—	—	—	995,900,000	100.00

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS *(continued)*

2. Explanation on changes in shares

During the Reporting Period, there was no change in the number of shares of the Company.

3. Effect of changes in shares on financial indicators such as earnings per share and net assets per share for the most recent year and most recent period

During the Reporting Period, there was no change in the number of shares of the Company.

(II) Changes in shares subject to selling restrictions

During the Reporting Period, there is no change in shares subject to selling restrictions of the Company.

II. ISSUANCE AND LISTING OF SECURITIES

(I) Each issuance of securities during the latest three years ended the end of the Reporting Period

Unit: Share/RMB

Types of shares and derivative securities	Date of issue	Issue price (or interest rate)	Issue number	Date of listing	Number of shares approved for listing and trading Shares
A share	27 July 2012	RMB5.4/share	150,000,000	8 August 2012	150,000,000
Convertible corporate bonds, bonds with detachable warrants and corporate bonds					
Tranche I of corporate bonds	2013.3.4	4.8%	800,000,000	2013.4.2	800,000,000
Tranche II of corporate bonds	2013.5.30	4.5%	700,000,000	2013.6.26	700,000,000

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS *(continued)*

(II) Changes in the asset and liability structure of the Company

Corporate bonds of the Company are long-term debts. The issue of corporate bonds will increase the portion of non-current liabilities in the total liabilities of the Company. Although it adjusted the liability structure of the Company to a certain extent, the liability scale of the Company had further expanded at the same time.

(III) Existing internal employee shares

As of the end of the Reporting Period, the Company had no internal employee shares.

III. SHAREHOLDERS AND ULTIMATE CONTROLLER

(I) Number of shareholders and their shareholdings

Currency: RMB

Total number of shareholders	30,307	Total number of shareholders	31,905
as at the end of the		as at the end of the fifth	
Reporting Period		trading day before the	
		disclosure date of the	
		Annual Report	

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS *(continued)*

Shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Increase/decrease during the Reporting Period	Number of shares held subject to selling restrictions	Number of shares pledged or frozen
YTO	State-owned legal-person	44.57	443,910,000	0	443,910,000	Nil
HKSCC Nominees Limited	Overseas legal-person shares	39.99	398,223,398	-162,000	0	Unknown
Luo Xiuzhen (羅秀珍)	Domestic natural person	0.11	1,081,351	1,081,351	0	Unknown
Qin huihui (秦惠輝)	Domestic natural person	0.11	1,059,400	1,059,400	0	Unknown
Huang Hui (黃慧)	Domestic natural person	0.09	933,300	933,300	0	Unknown
Ceng Bizheng (曾必正)	Domestic natural person	0.08	771,600	771,600	0	Unknown
Deng Dulian (鄧杜廉)	Domestic natural person	0.08	751,600	751,600	0	Unknown
Wu Xiaoxian (吳小仙)	Domestic natural person	0.07	736,483	736,483	0	Unknown
Liu Hon Nam	Overseas natural person	0.07	726,000	0	0	Unknown
Cai Peihua (蔡佩華)	Domestic natural person	0.06	632,000	632,000	0	Unknown

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS (*continued*)

Shareholdings of the top ten shareholders not subject to selling restrictions

Name of shareholders	Number of shares held not subject to selling restrictions	Share Type and Number
HKSCC Nominees Limited	398,223,398	H Share
Luo Xiuzhen (羅秀珍)	1,081,351	A Share
Qin huihui (秦惠輝)	1,059,400	A Share
Huang Hui (黃慧)	933,300	A Share
Ceng Bizheng (曾必正)	771,600	A Share
Deng Dulian (鄧杜廉)	751,600	A Share
Wu Xiaoxian (吳小仙)	736,483	A Share
LIU HON NAM	726,000	H Share
Cai Peihua (蔡佩華)	632,000	A Share
Shaanxi International Trust Co., Ltd. - Ruixin No. 1 (陝西省國際信託股份有限公司—瑞信1號)	625,000	A Share

Connections or parties acting in concert among the aforesaid shareholders	Of the top 10 shareholders and top 10 shareholders not subject to selling restrictions, YTO, the controlling shareholder of the Company, has no connected relationship with, nor is it a party acting in concert (as defined in the Administrative Measures on Acquisitions by Listed Companies) with, any of other shareholders. The Company is not aware of any connected relationship among the aforesaid shareholders, nor aware of any parties acting in concert among them as defined in the Administrative Measures on Acquisitions by Listed Companies.
---	---

Note: according to the register of members of the Company as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS (*continued*)**(II) Shareholdings of the top ten holders of shares subject to selling restrictions and the terms of the selling restrictions***Unit: share*

No.	Name of holders of shares subject to selling restrictions	Number of shares held subject to selling restrictions	Release of selling restrictions Expiry date of selling restrictions	No. of additional shares available for listing and trading	Selling restrictions
1	YTO	443,910,000	8 August 2015	0	A lock-up period of 36 months after the listing

(III) Substantial shareholders' interests and short positions disclosed in accordance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")

As at 31 December 2013, the following shareholders of the Company (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number of shares interested ¹	Percentage of the relevant issued class of share capital (%)	Percentage of the total issued share capital of the Company (%)	Type of share
YTO ²	Beneficial owner	443,910,000(L)	74.74(L)	44.57(L)	A Share
The Capital Group Companies, Inc.	Interests of controlled corporations	36,062,000(L)	8.97(L)	3.62(L)	H Share
JPMorgan Chase & Co.	Custodian/ beneficial owner/ investment manager	23,854,160(L)	5.93(L)	2.40(L)	H Share
	Beneficial owner	1,256,000(S)	0.31(S)	0.13(S)	H Share
	Custodian	21,475,000(P)	5.34(P)	2.16(P)	H Share
Lazard Asset Management LLC	Interest of controlled corporations	27,230,000(L)	6.77(L)	2.73(L)	H Share

Note 1: (L) - Long position, (S) - Short position, (P) - Lending pool

Note 2: Simoach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 433,910,000 A Shares of the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS *(continued)*

IV. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

(I) Controlling shareholder

1. Corporate shareholder

Unit: RMB

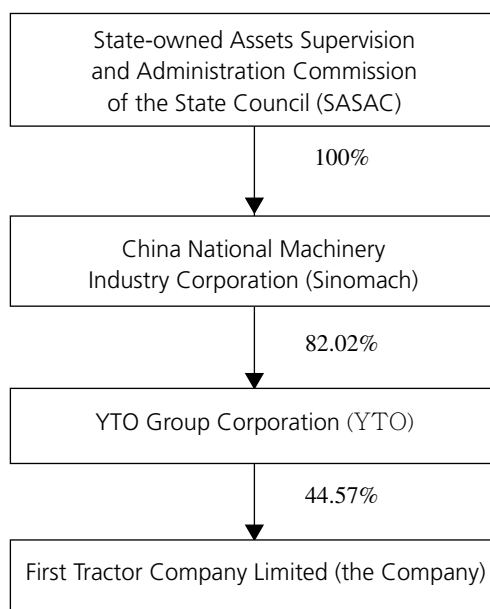
Name	YTO
Person in charge or legal representative	Zhao Yanshui
Date of establishment	6 May 1997
Organization code	16995805
Registered capital	RMB2,876,298,300
Principal business	Agricultural machinery, power machinery, vehicles and components
Operating results	In 2013, the audited revenue amounted to RMB13,620,000,000 and total profit amounted to RMB452,000,000.
Financial position and cashflow	As at 31 December 2013, YTO's audited total assets amounted to RMB14,495,000,000 and net assets amounted to RMB6,292,000,000. YTO's unaudited net operating cashflow amounted to RMB168,000,000.
Future development strategy	Mainly focus on capital management, emphasize capital management, capital operation, new business incubator and public services business, revitalize its inventories and selling products and improve return on investment and return on capital; achieve capital appreciation through capital management, achieve product management target through companies operation. Utilize the maximum value of performance of strategic management and capital resources, and promote the sustainable and healthy development of the Company to become a leading and internationally renowned first-class enterprise.
Equities interests (either controlling or participating) held in other Chinese and overseas listed companies during the Reporting Period	Nil

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS *(continued)*

(II) Ultimate controller

1. Property right and controlling relationship between the Company and the ultimate controller

Sinomach, the controlling shareholder of YTO, is a wholly state-owned company limited of SASAC. SASAC is the actual controller of the Company. As at 31 December 2013, the shareholding relation and structure of the Company, YTO, Sinomach and SASAC of the State Council are as follows:



V. DETAILS OF OTHER LEGAL PERSON SHAREHOLDERS HOLDING 10% OR MORE OF SHARES

Nil.

VI. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC which would oblige the Company to offer new shares of the Company on a pro rata basis to its existing shareholders.

VII. REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

(I) Change in shareholdings of incumbent Directors, Supervisors and senior management members and their remuneration

Unit: share

										Total remuneration (before tax) received from shareholder entities during the Reporting Period (RMB0'000)
Name	Position	Gender	Age	Start and end dates of tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in the number of shares held during the year	Reason of change	Total remuneration (before tax) received from the Company during the Reporting Period (RMB0'000)	
Zhao Yanshui	Chairman, executive Director and General Manager	Male	51	2012.12.20-2015.12.19	0	0	0	None	—	
Wang Erlong	Vice Chairman and non-executive Director	Male	50	2013.12.30-2015.12.19	0	0	0	None	—	
Yan Linjiao	Non-executive Director	Male	59	2012.12.20-2015.12.19	0	0	0	None	—	
Guo Zhiqiang	Non-executive Director	Male	58	2012.12.20-2015.12.19	0	0	0	None	EUR1.71 RMB54.10	
Liu Jiguo	Non-executive Director	Male	50	2012.12.20-2015.12.19	0	0	0	None	—	
Wu Yong	Executive Director	Male	49	2012.12.20-2015.12.19	0	0	0	None	72.09	
Hong Xianguo	Independent non-executive Director	Male	51	2012.12.20-2015.12.19	0	0	0	None	6.60	
Zhang Qiusheng	Independent non-executive Director	Male	46	2012.12.20-2015.12.19	0	0	0	None	6.00	
Xing Min	Independent non-executive Director	Male	60	2012.12.20-2015.12.19	0	0	0	None	6.60	
Wu Tak Lung	Independent non-executive Director	Male	49	2012.12.20-2015.12.19	10,000	10,000	0	None	6.20	
Li Ping'an	Chairman of the Board of Supervisors	Male	50	2012.12.20-2015.12.19	0	0	0	None	—	
Xu Shidong	Supervisor	Male	40	2012.12.20-2015.12.19	0	0	0	None	—	

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (continued)

										Total remuneration (before tax) received from shareholder entities during the Reporting Period (RMB0'000)
Name	Position	Gender	Age	Start and end dates of tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in the number of shares held during the year	Reason of change	Total remuneration (before tax) received from the Company during the Reporting Period (RMB0'000)	
Wang Jianjun	Staff Representative Supervisor	Male	38	2012.12.20-2015.12.19	0	0	0	None	36.42	
Xu Weilin	Staff Representative Supervisor	Male	52	2012.12.20-2015.12.19	0	0	0	None	21.75	
Wang Yong	Supervisor	Male	46	2012.12.20-2015.12.19	0	0	0	None	5.40	
Huang Ping	Supervisor	Male	46	2012.12.20-2015.12.19	0	0	0	None	5.40	
Lian Guoqing	Executive Deputy General Manager	Male	58	2012.12.20-2015.12.19	0	0	0	None	66.56	
Liu Yao	Deputy General Manager and Chief Technologist	Male	54	2012.12.20-2015.12.19	0	0	0	None	RMB39.54 EUR9.77	
Hou Zhiping	Deputy General Manager	Male	56	2012.12.20-2015.12.19	0	0	0	None	54.57	
Yao Weidong	Chief accountant	Male	48	2012.12.20-2015.12.19	0	0	0	None	55.59	
Zhu Weijiang	Deputy General Manager	Male	43	2012.12.20-2015.12.19	0	0	0	None	54.57	
Su Wensheng	Deputy General Manager	Male	46	2012.12.20-2015.12.19	0	0	0	None	52.94	
Song Yuping	Deputy General Manager	Male	50	2012.12.20-2015.12.19	0	0	0	None	54.57	
Yu Lina	Secretary to the Board and Investor Relationship Manager	Female	44	2012.12.20-2015.12.19	0	0	0	None	55.59	

Note:

1. Shareholder entities include their connected entities.
2. Remuneration received from the Company includes remuneration received from the Company's subsidiaries.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (*continued*)**(II) Change in shareholdings of retired Directors, Supervisors and senior management members and their remuneration***Unit: share*

Name	Position	Gender	Age	Start and end dates of tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in the number of shares held during the year	Reason of change	Total remuneration (before tax) received from the Company during the Reporting Period	Total remuneration (before tax) received from shareholder entities during the Reporting Period
Su Weike	Vice Chairman and non-executive Director	Male	52	2012.12.20- 2014.01.10	0	0	0	None	—	69.33
Dong Jianhong	Non-executive Director	Female	48	2012.12.20- 2013.11.15	0	0	0	None	—	72.91
Qu Dawei	Non-executive Director	Male	49	2012.12.20- 2014.01.10	0	0	0	None	—	69.06

Note 1: Shareholder entities include their connected entities.

Note 2: Mr. Su Weike and Mr. Qu Dawei resigned in January 2014.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

II. MAJOR WORK EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF THE COMPANY

(I) Major work experience of incumbent and resigned Directors, Supervisors and senior management members during the Reporting Period

1. Directors

Mr. Zhao Yanshui, the Chairman, executive Director, General Manager, the chairman of the Strategy & Investment Committee and a member of the Nomination Committee under the Board, the chairman of YTO, a director of CAMACO and BCM as well as the deputy governor of Association of Agricultural Machinery Industry of China. Mr. Zhao served as vice chairman and general manager of YTO from June 2009 to June 2011 and as a Director of the Company from June 2009 to November 2011. Mr. Zhao has been serving as the Chairman of the Company since November 2011 and as the chairman of YTO since June 2011.

Mr. Wang Erlong, Vice Chairman and non-executive Director of the Company, the party secretary, financial manager and deputy general manager of YTO, the a director to Sinomach Finance Co., Ltd. (國機財務有限責任公司) and the chairman of YTO Finance. Mr. Wang was the financial manager and deputy general manager of China Automotive Industry Import and Export Corporation (中國汽車工業進出口總公司) from August 2006 to October 2012. He has been serving as the financial manager and deputy general manager of YTO since October 2012. He has been serving as the party secretary of YTO since December 2013.

Mr. Yan Linjiao, a non-executive Director of the Company, a member of the Audit Committee and the Strategy & Investment Committee under the Board, director and general manager of YTO and a director of BCM, a director of Zhou Yan Science and Technology Holdings Limited (軸研科技股份有限公司) and a director of China SINOMACH Heavy Industry Corporation (中國國機重工集團有限公司) and SINOMACH Jinggong Company Limited (國機精工有限公司). Mr. Yan was a general manager of the Company from August 2007 to June 2009. He has been serving as a director, former executive deputy general manager and the general manager of YTO since August 2007.

Mr. Guo Zhiqiang, a non-executive Director of the Company, a deputy general manager and director of the technical center of YTO. He has been a deputy general manager and director of the technical center of YTO since December 2007.

Mr. Liu Jiguo, a non-executive Director of the Company, deputy general manager of YTO, the chairman of YTO (Luoyang) Logistics Company Limited (一拖(洛陽)物流有限公司) and a director of YTO (Heilongjiang) Dongfanghong Industrial Park Company Limited (一拖(黑龍江)東方紅工業園有限公司). Mr. Liu was a deputy general manager of the Company from August 2007 to June 2009, assistant to general manager of YTO and deputy general manager of the Company from June 2009 to December 2010, and the general manager of the Company from December 2010 to November 2012. Mr. Liu has been serving as the deputy general manager of YTO since November 2012.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

Mr. Wu Yong, an executive Director of the Company, member of the Remuneration Committee under the Board, the party secretary of the Company as well as deputy general manager of YTO and an executive director of YTO Flag. Mr. Wu was the head of the party work department of YTO from February 2009 to January 2013, and a member of the party committee and assistant to the secretary to the party committee of YTO from October 2011 to September 2012. Mr. Wu has been the secretary to the party committee and secretary to the disciplinary committee of the Company since October 2011. He has been a deputy general manager of YTO since September 2012.

Mr. Hong Xianguo, an independent non-executive Director of the Company, chairman of the Nomination Committee and the Remuneration Committee under the Board, the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers (中國農業機械工業協會), the vice chairman of China Agricultural Mechanization Association (中國農業機械化協會), the vice chairman of Technical Committee on Standardization of Agricultural Machinery of China (中國農業機械標準化技術委員會), a consultant to the Technical Committee on Standardization of Tractors of China (中國拖拉機標準化技術委員會) and a member of the leading group for safety production under the Ministry of Industry and Information Technology (工業和信息化部). Mr. Hong was the vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers from May 2006 to December 2011. He has been the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers since December 2011.

Mr. Zhang Qiusheng, an independent non-executive Director, a member of the Strategy & Investment Committee and the chairman of the Audit Committee under the Board. Mr. Zhang is also the Dean of School of Economics and Management of Beijing Jiaotong University and a director of China Mergers and Acquisitions Research Centre (中國企業兼併重組研究中心). Mr. Zhang has been serving at the School of Economics and Management of Beijing Jiaotong University for the past five year.

Mr. Xing Min, an independent non-executive Director, a member of the Nomination Committee and the Remuneration Committee under the Board and the deputy president and secretary-general of China Internal Combustion Engine Industry Association (中國內燃機工業協會). He is also an independent director of Jiangsu Yunyi Electric Company Limited (江蘇雲意電氣股份有限公司), Wuxi Weifu High-technology Company Limited (無錫威孚高科技集團股份有限公司) and Jinan Qingqi Motorcycle Company Limited (濟南輕騎摩托車股份有限公司). He has been the deputy president and secretary-general of China Internal Combustion Engine Industry Association since 2008.

Mr. Wu Tak Lung, an independent non-executive Director, a member of the Audit Committee and the Remuneration Committee under the Board. He is a member of Hong Kong Institute of Certified Public Accountants and Hong Kong Securities and Investment Institute, and a senior member of ACCA, Taxation Institute of Hong Kong and Hong Kong Institute of Chartered Secretaries. He concurrently acts as an independent non-executive director of Beijing Media Co., Ltd. (北京傳媒股份有限公司), AUPU Group Holding Company Limited and China Machinery Engineering Corporation listed on the Stock Exchange and Hong Tong Electronics Holdings Co., Ltd. (鴻通電子控股有限公司) listed on Singapore Exchange.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

Mr. Su Weihe, is the assistant to general manager and the head of the party work department of Sinomach. He was the vice chairman, non-executive Director, a member of the Strategy & Investment Committee under the Board of the Company, and the party secretary and vice chairman of YTO. Mr. Su has been the assistant to the general manager of Sinomach since 2009. He was the party secretary and vice chairman of YTO from October 2010 to December 2013; was the vice chairman of the Company since June 2011 and resigned in January 2014.

Ms. Dong Jianhong, is the deputy head of the finance department of Sinomach, a director of YTO Diesel and Luoyang Bank. She was a non-executive Director of the Company and member of the Remuneration Committee under the Board. She was the chief accountant of the Company from September 2007 to December 2010. She was a non-executive Director of the Company since July 2009 and resigned in November 2013.

Mr. Qu Dawei, is the deputy general manager of China Erzhong Group (Deyang) Heavy Industries Co., Ltd. (二重集團(德陽)重型裝備股份有限公司), the deputy general manager of YTO and chairman of YTO (Luoyang) Dongchen Mold Technology Co., Ltd. (一拖(洛陽)東晨模具科技有限公司). He was the non-executive Director of the Company since July 2009 and resigned in January 2014.

2. Supervisors

Mr. Li Ping'an, the chairman of the Board of Supervisors, the chief legal advisor and deputy secretary to the disciplinary committee of YTO as well as the chairman of the supervisory committee of Luoyang Business Daily Company Limited (洛陽商報有限責任公司). Mr. Li served at YTO as head of the legal affairs department and staff representative supervisor from June 2009 to April 2011. He has been the chief legal advisor and staff representative supervisor of YTO since April 2011.

Mr. Xu Shidong, a Supervisor of the Company, the head of the assets and finance department of YTO, the chairman of the supervisory committee of YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd. (一拖(洛陽)開創裝備科技有限公司) and the chairman of the board of supervisor of YTO (Luoyang) Logistics Company Limited (一拖(洛陽)物流有限公司). Mr. Xu was a deputy general manager of YTO Foundry from March 2009 to December 2009. He has been the head of the assets and finance department of YTO since January 2010.

Mr. Wang Jianjun, a staff representative Supervisor and the party secretary of the procurement centre of the Company. Mr. Wang was the party secretary and the chairman of the Labour Union of No. 4 Assembly factory of the Company from August 2007 to April 2013. Mr. Wang has been the party secretary of the procurement centre of the Company since April 2013.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

Mr. Xu Weilin, a staff representative Supervisor, the factory manager and the party secretary of the No. 1 assembly factory (第一裝配廠) of the Company, and supervisor of YTO Linhai Vehicles Co., Ltd. (中國一拖臨海車輛有限公司). Mr. Xu served as the party secretary and secretary to the disciplinary committee of the No. 1 assembly factory of the Company from August 2009 to July 2012, and has been the factory manager, the party secretary and secretary to the disciplinary committee of the No. 1 assembly factory of the Company since July 2012.

Mr. Wang Yong, a Supervisor of the Company, the head and professor of Institute of Commercial Law of School of Civil Commercial and Economic Law of China University of Political Science and Law and a member of the International Exchange Committee of China University of Political Science and Law. He is also a standing council member of China Commercial Law Institute, a council member of China Securities Law Institute, a lawyer at Beijing Longan Law Firm (北京隆安律師事務所律師) and an independent director of SG Microelectronics (Beijing) Company Limited (聖邦微電子(北京)股份有限公司), Zhejiang Firstar Panel Technology Company Limited (浙江星星瑞金科技股份有限公司), Beijing ZZNode Technology Company Limited (北京直真科技股份有限公司), Thunder Software Technology Co., Ltd. and Xinwei Telecom Enterprise Group.

Mr. Huang Ping, a Supervisor of the Company, the deputy director of Luoyang Zhonghua Certified Public Accountants Company Limited (洛陽中華會計師事務所) and an independent non-executive director of Luoyang Glass Company Limited (洛陽玻璃股份有限公司). He is also a standing council member of Institute of Certified Public Accountants of Luoyang (洛陽註冊會計師協會), the vice president of Luoyang Judicial Authentication Association (洛陽司法鑒定協會) and a standing council member of Luoyang Entrepreneurs Association (洛陽企業家協會). Mr. Huang has been serving at Luoyang Zhonghua Certified Public Accountants Company Limited during the last five years.

3. Senior management members

Mr. Zhao Yanshui, the general manager of the Company. For his biography, Please refer to "1. Directors".

Mr. Lian Guoqing, executive deputy general manager of the Company, an executive director of YTO International, an executive director of Changhong Trading (洛陽長宏工貿有限公司), the chairman of YTO (Luoyang) Harvesting Machinery Co., Ltd.(一拖(洛陽)收穫機械有限公司) and YTO (Luoyang) Zhongcheng Machinery Co., Ltd.(一拖(洛陽)中成機械有限公司), and the executive director of YTO Axle. Mr. Lian was the deputy general manager of the Company and the general manager in the Agricultural Equipment Division of the Company from June 2009 to January 2010. He has been the deputy general manager of the Company since January 2010.

Mr. Liu Yao, deputy general manager and chief technologist of the Company and the chairman of YTO France. Mr. Liu has been the chief technologist of the Company since December 2009. He has been serving as the deputy general manager of the Company since November 2012.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

Mr. Hou Zhiping, deputy general manager of the Company, a director of Shanghai Dragon (Group) Co., Ltd. (上海強農(集團)股份有限公司) YTO Shentong and YTO Shunxing (Luoyang) Spare Parts Co., Ltd. (一拖(洛陽)順興零部件有限責任公司), a director and general manager of YTO Heilongjiang Agricultural Machinery Co., Ltd. (一拖黑龍江農業裝備有限公司), and the chairman of Changtuo Company. Mr. Hou served as the head of the planning and development department of the Company from January 2010 to January 2011, and assistant to the general manager of the Company from January 2011 to November 2012. He has been a deputy general manager of the Company since November 2012.

Mr. Yao Weidong, chief accountant of the Company, the chairman of YTO Shentong, an executive director of YTO Group Corporation (Luoyang) Vehicle Co., Ltd. (中國一拖集團(洛陽)車輛有限公司), YTO Forklift and YTO Transportation. Mr. Yao is also the chairman of Shanghai Dragon (Group) Co., Ltd. (上海強農(集團)股份有限公司), chairman of supervisory committee of YTO Finance, a supervisor of YTO International, Luoyang Changhong Trading Co., Ltd. (洛陽長宏工貿有限公司), Luoyang Changxing Agricultural Machinery Co., Ltd. (洛陽長興農業機械有限公司), YTO (Luoyang) Harvesting Machinery Co., Ltd. (一拖(洛陽)收穫機械有限公司), Jiangyan Power and YTO (Xinjiang) Machinery. He was the head of the finance department of the Company from August 2007 to January 2011, and the deputy chief accountant and the head of the finance department of the Company from January 2011 to November 2012. He has been serving as chief accountant of the Company since November 2012.

Mr. Zhu Weijiang, deputy general manager of the Company, chairman of YTO (Xinjiang) Machinery, an executive director of Luoyang Changxing Agricultural Machinery Co., Ltd. (洛陽長興農業機械有限公司) and a director of YTO Finance. Mr. Zhu was the assistant to general manager of the Company and the general manager of the marketing centre of the agricultural equipment division of the Company from January 2010 to October 2011 and the assistant to general manager of the Company from October 2011 to November 2012. He has been the deputy general manager of the Company since November 2012.

Mr. Su Wensheng, deputy general manager of the Company, an executive director of YTO (Luoyang) Lubricants Co., Ltd. (一拖(洛陽)潤滑油有限公司), a director of Changtuo Company. Mr. Su served as the factory manager of the No. 3 assembly factory of the Company from September 2008 to October 2011, and as the assistant to general manager of the Company and the factory manager of the No. 3 assembly factory of the Company from October 2011 to November 2012. He has been the deputy general manager of the Company since November 2012.

Mr. Song Yuping, deputy general manager of the Company and a director of Tractors Research Company. Mr. Song served as the factory manager of the No. 4 assembly factory of the Company from August 2007 to October 2011, and as the assistant to general manager of the Company and the factory manager of the No. 4 assembly factory of the Company from October 2011 to November 2012. He has been serving as the assistant to general manager of the Company since November 2012.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

Ms. Yu Lina, Secretary to the Board and the investor relationship manager of the Company, a director of YTO Shentong and a supervisor of YTO Flag. She has been serving at the Company as the Secretary to the Board since July 2006 and as the investor relationship manager since November 2012.

(II) POSITIONS HELD BY INCUMBENT OR RETIRED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS DURING THE REPORTING PERIOD

(I) Positions in shareholder entities

Please refer to the subsection headed “MAJOR WORK EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF THE COMPANY DURING THE REPORTING PERIOD” in this section.

(II) Positions in other entities

Please refer to the subsection headed “MAJOR WORK EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF THE COMPANY DURING THE REPORTING PERIOD” in this section.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Decision making process for remuneration of Directors, Supervisors and senior management members	The remuneration packages of Directors and Supervisors are proposed by the Remuneration Committee under the Board and, after having been considered and approved by the Board, submitted for shareholders’ approval at a general meeting.
Basis for determining the remuneration of Directors, Supervisors and senior management members	The remuneration packages of Directors, Supervisors and senior management members are determined based on remuneration standard of the industry and with reference to the Company’s remuneration system and operating results for current year.
Remuneration payable to Directors, Supervisors and senior management members	During the Reporting Period, the Company paid RMB6,969,400 (including the remuneration of Directors and Supervisors resigned or retired in the Reporting Period) to its Directors, Supervisors and senior management members.
Total remuneration received by all Directors, Supervisors and senior management members as at the end of the Reporting Period	RMB6,969,400

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)*

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF THE COMPANY

Name	Position	Change	Reason of change
Su Weike	Vice Chairman and member of the Strategy & Investment Committee under the Board	Resigned	Resignation for work changes
Dong Jianhong	Non-executive Director, member of the Remuneration Committee under the Board	Resigned	Resignation for work changes
Qu Dawei	Non-executive Director	Resigned	Resignation for work changes
Wang Erlong	Non-executive Director and Vice Chairman	Appointed	To fill the casual vacancy

V. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the Reporting Period and as at the date of this Annual Report, save as disclosed herein, none of the Directors or Supervisors had any direct or indirect material interest in any contract of significance to the business of the Company to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

VI. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period and as at the date of this Annual Report, none of the Directors or Supervisors was considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company.

VII. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, no rights were granted to any Directors, Supervisors, or their respective spouse or minor children, which would have enabled them to acquire benefits by means of acquisition of shares in or debentures of the Company or any other corporations; nor was the Company, its subsidiaries or holding company, or its holding company's subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in the Company or any other corporations.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (*continued*)**VIII. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2013, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

Name	The Company/ associated corporation	Capacity	Number and class of securities	Percentage of relevant class of issued share capital (%)	Percentage of total issued share capital (%)
Wu Tak Lung	The Company	Beneficial owner	10,000 H Shares Long position	0.0025	0.0010

IX. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

During the Report Period and by the last day of this Annual Report, except as disclosed in this section, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

X. CORE TECHNICAL TEAM OR KEY TECHNICAL PERSONNEL OF THE COMPANY

During the Reporting Period, the Company's core technical team or key technical personnel (other than Directors, Supervisor and senior management members) that was of significant importance to the Company's core competitiveness was stable and remained unchanged.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES *(continued)***XI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES****(I) Employees**

Number of existing employees of the parent company	5,523
Number of existing employees of major subsidiaries	8,041
Total existing employees	13,564
Number of retired employees who are pensioned by the parent company and its major subsidiaries	13,962

Staff composition

Category	Number of persons
Production staff	8,769
Sales staff	1,031
Technical staff	1,520
Administrative staff	1,983
Service staff	261
Total	13,564

Educational Background

Education level	Number of persons
Postgraduate and above	195
Graduate	2,032
Diploma	2,571
Below diploma	8,766

(II) Remuneration policy

In light of its own situation, the Company has adopted a basic salary system based on “the remuneration in accordance with position”, giving more weight to “strategic human resources” and “core human resources”, and shifting from “distribution according to one’s performance” to “combination of distribution according to production factors and distribution according to one’s performance”. It established remuneration systems in line with the work nature of employees in different areas, including annual salary system, post-performance-based salary system, piece-rate-based salary system, time-based salary system, project-commission-based salary system and contractual salary system, thereby effectively motivating all employees and providing support for the Company’s sustainable development.

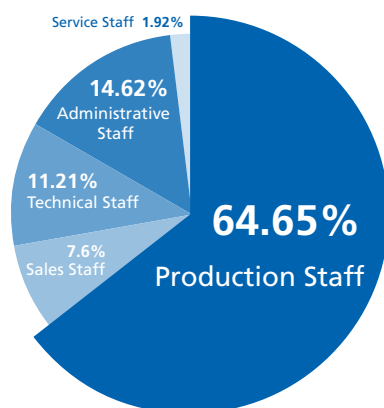
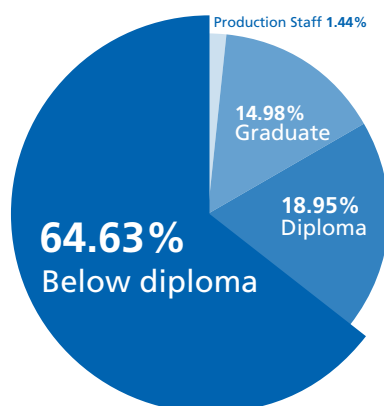
The Company continued to implement multi-channel incentive policy. Positions shall be set for the professional technical personnel of chief technician, engineer in charge (economist), person-in-charge and their performance will be reviewed quarterly, which can provide basis for the promotion of administrative and professional positions. Through further refining the incentive system, employees are fully motivated and innovative, giving strong personnel support to the development of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (*continued*)**(III) Training plan**

The Company planned multi-tier, cross-system trainings to train the capacity and the quality of the staff, aiming to qualify them for their positions and the Group's development. During the Reporting Period, the Group organized a total of 1,493 various training courses for 36,603 persons.

(IV) Labour outsourcing

There is no labour outsourcing during the Reporting Period.

(V) Staff composition chart**(VI) Educational level chart**

CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT SYSTEM

First Tractor is a company listed both in Shanghai Stock Exchange and the Stock Exchange. Pursuant to the requirements of the Company Law, the Securities Law and the rules and requirements of the regulators in the PRC and Hong Kong, it established a corporate governance structure and system with well-established standards. The general meetings, the Board (including Board committees), the Board of Supervisors of the Company have work efficiently in accordance with the requirements of Articles of Association of the Company and the rules of procedure. Decision-making institutes, supervisory institutes and the management of the Company balanced each other's power and coordinated for the development of the Company to guarantee its growth. In 2013, the Company was selected into the SSE Corporate Governance Sector subsequent to reporting of the listed company, commenting and discussion of the society, preliminary selection and consideration of an expert advisory committee. The Company becomes the constituents of SSE Corporate Governance Indicators.

The Company strictly complied with the requirements of information disclosure in the PRC and Hong Kong to perform its information disclosure responsibility. It chose to disclose more, shortened the time of preparation, applied strict reporting requirements and treated the principles in the two stock markets fairly. The Company established the Management Rules for Information Disclosure and System of Accountability for Significant Mistakes in the Periodic Reports (《定期報告重大差錯責任追究制度》), in which it has basically established a system of accountability for corporate information disclosure and internal report.

The Company attached importance in investor relationship management and maintaining. It thus established the Rules on Investor Relationship Management (《投資者關係管理制度》) to regulate investor relationship management. It made known the operations and development of the Company to investors through different channels and in the markets. It has established an interactive relationship with investors and they understood more about the Company and further agreed with it.

During the Reporting Period, the Company prepared the System of Accountability for Significant Mistakes of Information Disclosure in the Annual Report of First Tractor Company Limited (《第一拖拉機股份有限公司年度報告信息披露重大差錯責任追究制度》) and amended system documents such as rules of procedure for the Board meetings, and Management Principles on Use of Proceeds in accordance with Company Law, the Securities Law and the rules and requirements of the regulators in the PRC and Hong Kong, further regulating and perfecting the structure and enhancing the level of corporate governance. The Company established the Board Diversity Policy (《董事會成員多元化政策》), aiming to consider various aspects in relation to the composition of the Board when the Company selects members for the Board, including but not limited to gender, age, race, cultural and educational background, professional experience, knowledge, skills and other factors. It aims to avoid a collective mindset in the Board due to simplex composition and allow members of the Board to think in different perspectives. As a result, the Board can consider more comprehensively and in detail when it makes important decisions.



CORPORATE GOVERNANCE (*continued*)

During the Reporting Period, the Company strictly implemented the Management System for Persons Informed of Insider Information. It carried out registration of persons informed of insider information in relation to periodic reports, financial information, significant events and other price sensitive information of the Company in 2013 in accordance with the regulations and requirements.

There is no deviation between the corporate governance system of the Company and the requirements in corporate governance under Company Law, the Code of Corporate Governance for Listed Companies and CSRC.

II. GENERAL MEETINGS

General meetings are the supreme organ of authority of the Company. The Company's general meetings are divided into annual general meetings and extraordinary general meetings. The Company treats all shareholders equally, ensures that all shareholders have the rights to be informed of, and to make decisions on, material matters relating to the Company and protects the legitimate interests of all shareholders. The convening, holding and voting procedures of general meetings and the voting procedures of class meetings are specified in the Articles of Association and the Rules of Procedure for General Meetings of the Company to ensure that shareholders may fully exercise their rights.

The shareholders of the Company have the rights to access to the corporate information and documents of the Company as stipulated in the Articles of Association of the Company. The Board appoints the secretary to the Board who shall be responsible for safekeeping the Company's general meeting documents and relevant records of meetings and making sure the shareholders and the relevant persons can obtain the same on a timely basis.

During the Reporting Period, one general meeting i.e. the 2012 annual general meeting was held by the Company. Four extraordinary general meetings and one class meeting for holders of A shares and H shares respectively were also held. The notices and resolution announcements of these meetings were published in China Securities Journal and Shanghai Securities News and on the websites of the Shanghai Stock Exchange, the Stock Exchange and the Company in accordance with relevant requirements.

CORPORATE GOVERNANCE (*continued*)

(I) 2013 First Extraordinary General Meeting

Convening date: 18 February 2013

Content of the resolutions:

1. The provision of external guarantee

Voting results: passed

Inquiry index for the designated website for publishing the voting results: www.sse.com.cn (the website of Shanghai Stock Exchange); www.hkex.com (the website of the Stock Exchange)

Date of publication of the voting results: 19 February 2013

(II) 2012 Annual General Meeting

Convening date: 30 May 2013

Content of the resolutions:

1. The report of the Board for the year 2012
2. The report of the Board of Supervisors for the year 2012
3. The audited financial report of the Company for the year 2012
4. The profit distribution proposal of the Company in respect for the year 2012
5. The reappointment of Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong Limited as the PRC and Hong Kong auditors of the Company respectively for the year 2013, and the authorization to the Board to decide their remunerations in the total amount of no more than RMB2,500,000
6. The provision of guarantees for the mining truck products lessees/borrowers under the finance lease and buyer's credit business

Voting results: all resolutions passed

Inquiry index for the designated website for publishing the voting results: www.sse.com.cn (the website of Shanghai Stock Exchange); www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 31 May 2013



CORPORATE GOVERNANCE (*continued*)

(III) 2013 Second Extraordinary General Meeting

Convening date: 19 August 2013

Content of the resolutions:

1. The amendments to the "Management System for Raised Fund" of the Company
2. The capital contribution to YTO Diesel with hi-powered agricultural diesel engine project asset and the authorization by the Company the Company

Voting results: all resolutions passed

Inquiry index for the designated websites for publishing the voting results: www.sse.com.cn (the website of the Shanghai Stock Exchange) and www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 20 August 2013

(IV) 2013 Third Extraordinary General Meeting

Convening date: 15 October 2013

Content of the resolutions:

1. The purchase of director liability insurance for the Directors, Supervisors and senior management officers of the Company and relevant authorizations
2. The appointment of internal control auditor
3. The provision of guarantees for finance lease, buyer's credit business and other businesses of the agricultural machinery products of the Company and its subsidiaries
4. The general mandate to the Board to repurchase H Shares

Voting results: all resolutions passed

Inquiry index for the designated websites for publishing the voting results: www.sse.com.cn (the website of the Shanghai Stock Exchange) and www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 16 October 2013

CORPORATE GOVERNANCE (*continued*)

(V) 2013 First Class Meeting for Holders of H Shares

Convening date: 15 October 2013

Content of the resolutions:

1. The general mandate to the Board to repurchase H Shares

Voting results: all resolutions passed

Inquiry index for the designated websites for publishing the voting results: www.sse.com.cn (the website of the Shanghai Stock Exchange) and www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 16 October 2013

(VI) 2013 First Class Meeting for Holders of A Shares

Convening date: 15 October 2013

Content of the resolutions:

1. The general mandate to the Board to repurchase H Shares

Voting results: all resolutions passed

Inquiry index for the designated websites for publishing the voting results: www.sse.com.cn (the website of the Shanghai Stock Exchange) and www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 16 October 2013

CORPORATE GOVERNANCE (*continued*)

(VII) 2013 Fourth Extraordinary General Meeting

Convening date: 30 December 2013

Name of the resolutions in the meeting:

1. The election of Mr. Wang Erlong as a non-executive Director of the sixth session of the Board
2. The amendments to the "Rules of Procedures of Board Meetings" of the Company

Voting results: all resolutions passed

Inquiry index for the designated websites for publishing the voting results: www.sse.com.cn (the website of the Shanghai Stock Exchange) and www.hkex.com (the website of the Stock Exchange)

Date of publication of disclosing the resolutions: 31 December 2013

CORPORATE GOVERNANCE (continued)

III. PERFORMANCE OF DUTIES BY DIRECTORS

(I) Attendance of Board meetings and general meetings by current and retired Directors

The Company convened seven Board meetings in 2013, among which two were physical meetings, four were held by means of telecommunication, and one was convened on site and with the use of telecommunication.

Name	Independent Director	Required attendance for the year	Attendance at Board meetings			Absence from two consecutive meetings	Attendance at general meetings
			Actual attendance	Attendance by telecommunication	Attendance by proxy		
Zhao Yanshui	No	7	7	4	0	0	7/7
Wang Erlong	No	0	0	0	0	0	0/0
Yan Linjiao	No	7	7	4	1	0	6/7
Guo Zhiqiang	No	7	7	5	0	0	6/7
Liu Jiguo	No	7	7	4	0	0	6/7
Wu Yong	No	7	7	4	0	0	3/7
Hong Xianguo	Yes	7	7	5	0	0	2/7
Zhang Qiusheng	Yes	7	7	7	0	0	0/7
Xing Min	Yes	7	7	5	0	0	2/7
Wu Tak Lung	Yes	7	7	6	0	0	1/7
Su Weihe	No	7	7	4	0	0	0/7
Dong Jianhong	No	6	6	5	0	0	1/6
Qu Dawei	No	7	7	5	0	0	2/7

(II) Independent non-executive Directors' objection to relevant matters of the Company

During the Reporting Period, none of the independent non-executive Directors of the Company raised any objection to resolutions proposed at Board meetings or other meetings of the Company held during the year.

CORPORATE GOVERNANCE *(continued)*

IV. IMPORTANT OPINIONS AND SUGGESTIONS PUT FORWARD BY THE BOARD COMMITTEES IN THEIR PERFORMANCE OF DUTIES IN THE REPORTING PERIOD

Strategy & Investment Committee, Audit Committee, Nomination Committee and Remuneration Committee are under the Board. All members of each of the committee took into account of each Director's professional background and experience and the position requirements set out in the Code on Corporate Governance Practices and Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. These committees are mostly chaired by independent non-executive Directors who constitute a majority of each of these committees. During the Reporting Period, there were no change in the members of the committees except the Remuneration Committee due to the resignation of a Director.

1. Remuneration Committee

Pursuant to the requirements of the Implementation Rules for the Remuneration Committee of the Company, the Remuneration Committee consists of five Directors. During the Reporting Period, Ms. Dong Jianhong resigned as non-executive Director and a member of the Remuneration Committee of the Company in November 2013. The Remuneration Committee under the Board consists of four Directors. Among which, Mr. Hong Xianguo (independent non-executive Director) is the chairman of the Remuneration Committee, and Mr. Xing Min (independent non-executive Director), Mr. Wu Tak Lung (independent non-executive Director) and Mr. Wu Yong (executive Director) are members of the Remuneration Committee.

Duties and operation of the Remuneration Committee

1. to make recommendations to the Board on the Company's policy and structure for all Directors, Supervisors and senior management members, the remuneration of non-executive Directors and the remuneration packages of individual executive Directors and senior management members as well as on the establishment of a formal and transparent procedure for developing remuneration policy;
2. to review and approve: the management's remuneration proposals; compensation payable to executive Directors and senior management for any loss or termination of office or appointment; and compensation arrangements relating to dismissal or removal of Directors for misconduct;
3. to supervise the implementation of the Company's remuneration policy to ensure that no Director or any of his associates is involved in deciding his own remuneration.

CORPORATE GOVERNANCE (*continued*)

Details of the Directors' remuneration are set out in "Change in shareholdings of incumbent or retired Directors, Supervisors and senior management members during the Reporting Period and their remuneration" of Section VIII of this report.

During the Reporting Period, two meetings were held by the Remuneration Committee of the sixth session of the Board by means of telecommunication with full attendance. On 25 November 2013, the first meeting of the Remuneration Committee of the sixth session of the Board for 2013 considered and passed the "Proposal of Remuneration and Performance Appraisal for Senior Management of First Tractor Company Limited (《關於第一拖拉機有限公司高級管理人員薪酬績效考核方案》); on 27 December 2013, the second meeting of the Remuneration Committee of the sixth session of the Board for 2013 considered and passed the "Resolution in relation to the Amendments of 'Interim Measures on Remuneration Performance Management and Mid- and Long-term Incentives for Persons in Charge of First Tractor Company Limited" (《關於修訂<第一拖拉機股份有限公司負責人薪酬績效管理及中長期激勵暫行辦法>的議案》).

2. Nomination Committee

The Nomination Committee under the sixth session of the Board consisted of three Directors. Mr. Hong Xianguo (independent non-executive Director) is the chairman of the Nomination Committee, and Mr. Xing Min (independent non-executive Director) and Mr. Zhao Yanshui (executive Director) are members of the Nomination Committee.

Duties and operation of the Nomination Committee

- (1) to review the structure, size and composition of the Board based on the operating activities, asset scale and shareholding structure of the Company and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (2) to study the criteria and procedures for selection of the Directors and managers of the Company and make recommendations to the Board;
- (3) to select appropriate candidates for Directors, managers and other senior management members of the Company subject to the Board's decision on their employment pursuant to the proposals of the nominating workgroup and to make recommendations to the Board with respect to the candidates for the Directors and managers;
- (4) to assess the independence of independent Directors; and



CORPORATE GOVERNANCE (*continued*)

- (5) to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the general manager.

During the Reporting Period, the Nomination Committee under the sixth session of the Board convened the first meeting in 2013 by means of telecommunication on 11 November 2013 with full attendance. The meeting considered the “Resolution in relation to the Recommendation of Mr. Wang Erlong as a Candidate of Non-executive Director of the Sixth session of the Board of First Tractor Company Limited” (《關於推薦王二龍先生為第一拖拉機有限公司第六屆董事會非執行董事候選人的議案》) and Board Diversity Policy of First Tractor Company Limited (《第一拖拉機有限公司董事會成員多元化政策》). It also submitted the aforesaid resolutions to the Board as well as general meetings for their approval in accordance with approval delegations.

3. Audit Committee

The Audit Committee under the sixth session of the Board consists of 3 Directors. Mr. Zhang Qiusheng (independent non-executive Director) was appointed as the chairman of the Audit Committee, and Mr. Wu Tak Lung (independent non-executive Director) and Mr. Yan Linjiao (non-executive Director) are members. Mr. Zhang Qiusheng is qualified as a Chinese Certified Public Accountant (CCPA). The members of the Audit Committee under the Board are in compliance with the provisions under Rule 3.21 of the Listing Rules.

Duties and operation of the Audit Committee

- (1) to oversee the relationship with the external auditors of the Company, including but not limited to giving advice to the Board on appointment, reappointment and removal of external auditors, approving the audit fee, terms of appointment and policies on non-audit services of external auditors, raising any queries in respect of their resignations or dismissals, and review and monitor the independence and objectivity of the auditors and the effectiveness of audit process;
- (2) to review the financial reports of the Company as to whether they are in compliance with the accounting standards and relevant requirements in relation to financial reporting under the Listing Rules and other laws;
- (3) to regulate and review the effectiveness of the internal control system of the Company, the review scope covers the effectiveness and compliance of the Company's internal control system, financial controls, internal audits and risk management systems;
- (4) to review the Company's financial and accounting policies and practices;

CORPORATE GOVERNANCE *(continued)*

- (5) to study other topics defined by the Board.

During the Reporting Period, the Audit Committee under the sixth session of the Board convened 3 meetings and all members attended the meetings. The Audit Committee has reviewed the 2012 results disclosure plan and the annual audit work plan at the first meeting held on 1 February 2013; the 2012 financial report, implementation of continuing connected transactions in 2012, external guarantee in 2012, internal control self-evaluation report and appointment of external auditors at the second meeting held on 20 March 2013; the 2013 interim report, implementation of continuing connected transactions in the first half of 2013 and appointment of internal control auditors in 2013 at the third meeting held on 16 August 2013.

The Audit Committee under sixth session of the Board has reviewed the Company's 2013 financial reports prepared in accordance with CASBE and HKFRS respectively.

4. **Strategy & Investment Committee**

At the end of the Reporting Period, the Strategy & Investment Committee under the sixth session of the Board consists of 5 Directors.: Mr. Zhao Yanshui (Chairman of the Board and executive Director) serves as the chairman, and Mr. Su Weike (vice Chairman of the Board and non-executive Director), Mr. Yan Linjiao (non-executive Director), Mr. Liu Jiguo (non-executive Director) and Mr. Zhang Qiusheng (independent non-executive Director) as members.

As Mr. Su Weike resigned as the vice Chairman of the Board, non-executive Director and a member of the Strategy & Investment Committee, as of the date of this Annual Report, the Strategy & Investment Committee under the sixth session of the Board consists of 4 Directors.

Duties and operation of the Strategy & Investment Committee

- (1) to study the medium and long-term strategic development plans of the Company and make recommendations on the same;
- (2) to study significant investments, financing proposals and material capital operations which are subject to the approval of the Board as required under the Articles of Association and relevant regulations of the Company and make recommendations on the same;
- (3) to study significant events which may affect the development of the Company and make recommendations on the same;
- (4) to inspect implementation of the above matters;



CORPORATE GOVERNANCE *(continued)*

- (5) other matters as authorized by the Board.

During the Reporting Period, the Strategy & Investment Committee under the sixth session of the Board convened the first meeting in 2013 by way of telecommunication, all members attended the meeting. At the meeting, the Company's acquisition of technology and material centre and calibration and testing centre of YTO and sales of 73% equity interests and certain assets in YTO (Luoyang) Zhongcheng Machinery Company Limited .

V. CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has strictly complied with the principles and most code provisions under the Code and formulated the board diversity policy based on the revision of the Code made by the Stock Exchange. Currently, the Company has a deviation from code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate people and should not be performed by the same individual.

(I) SECURITIES TRANSACTIONS BY DIRECTORS

After making enquiries to, and as confirmed by all Directors of the Company, Mr. Wu Tak Lung, an independent non-executive Director of the Company, holds 10,000 H shares of the Company. During the Reporting Period, all Directors of the Company have strictly complied with the code of conduct in relation to the securities transactions by Directors under the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules.

(II) DIRECTORS AND THE BOARD OF DIRECTORS

1. Directors

Ms. Dong Jianhong, the former non-executive Directors resigned as the Director in November 2013. The Company held the fourth extraordinary general meeting in 2013 to elect Mr. Wang Erlong as the non-executive Director of the sixth session of the Board on 30 December 2013. As of 31 December 2013, the sixth session of the Board consists of 12 members.

In January 2014, Mr. Su Weike, the executive Director resigned as the vice Chairman of the Board, non-executive Director and a member of the Strategy & Investment Committee and Mr. Qu Dawei resigned as the non-executive Director. As of the date of issue of this Annual Report, the sixth session of the Board consists of 10 members, which is not lower than the quorum required under the Articles of Association of the Company.

CORPORATE GOVERNANCE (*continued*)

The biographical details of Directors are set out in Section VIII headed “Directors, Supervisors, Senior Management and Employees” in this Annual Report. The Company has received the annual confirmation letter issued by each of the four independent non-executive Directors, namely Mr. Hong Xianguo, Mr. Zhang Qiusheng, Mr. Xing Min and Mr. Wu Tak Lung, in respect of their respective independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are qualified independent persons and comply with the requirements on independence as set out in Rule 3.13 of the Listing Rules.

One-third of the members of the Board are independent non-executive Directors. The members of the Board have different professional backgrounds and possess expertise and years of management experience in terms of corporate management, machine design and manufacturing, financial management, etc. The diversified professional backgrounds of Directors can ensure the decisions made by the Board to be more scientific and efficient.

During the Reporting Period, other than their working relationships with the Company, none of the Directors, Supervisors or senior management of the Company had any financial, business or family relationship or any other material/connected relationship with each other.

During the Reporting Period, the Company continues to organize the Directors, Supervisors and senior management personnel to participate in the training and lecture on corporate governance, information disclosure and operation management for the purpose of enhancing corporate operation and management level and ensuring the standardized operation of the Company. The Company arranged Mr. Wu Tak Lung, an independent non-executive Director, to participate in a training session on the qualifications of independent directors provided by the Shanghai Stock Exchange and obtained the independent director qualification; Mr. Zhao Yanshui, being the Chairman of the Board, to participate in the training session on board chairman of listed companies in 2013 organized by Henan securities regulatory bureau; Mr. Su Weike, Mr. Yan Linjiao, Mr. Guo Zhiqiang, Mr. Qu Dawei, Mr. Liu Jiguo and Mr. Wu Tak Lung, being Directors, Mr. Li Pingan, being the chairman of the Board of Supervisors and Mr. Xu Shidong, Mr. Xu Weilin, Mr. Wang Jianjun, Mr. Wang Yong, Mr. Huang Ping, being Supervisor of the Company, Mr. Lian Guoqing, being the standing deputy general manager and Mr. Zhu Weijiang, Mr. Liu Yao, Mr. Song Yuping, Mr. Su Wensheng and Mr. Hou Zhiping, being the deputy general manager also participated in the training session on board chairman, supervisors and senior management personnel of listed companies organized by Henan securities regulatory bureau. In addition, Ms. Yu Lina, the secretary to the Board participated in the continuing training on board secretary of listed companies provided by the Shanghai Stock Exchange.



CORPORATE GOVERNANCE *(continued)*

Meanwhile, the Company engaged Citic Securities, Commerce & Finance Law Offices and other intermediaries and professionals to provide training on behaviour of directors, supervisors and senior management personnel and standardized operation, work priorities and capital operation of listed companies to all Directors, Supervisors and senior management members of the Company during the continuing supervision and guidance period. By preparing the Directors Correspondence, Monthly Investors Relations Newsletter etc., the Company sends the operation updates, typical cases of listed companies and regulation priorities of CSRC and the stock exchanges and trends to all Directors, Supervisors and senior management members to provide support and coordination for their full and legal performance of duties.

2. The Board of Directors

The Board is the statutory business decision-making organ of the Company. It undertakes the leadership role and supervises the business and operation of the Company, aiming to assist all shareholders of the Company to attain their best economic interests. Under the leadership of the Chairman, the Board is responsible for formulating and reviewing the Company's development strategies and operating strategies, preparing annual budgets and final accounting schemes and annual business plans, proposing dividend plans, monitoring the Board pursuant to the relevant laws and regulations, rules and Articles of Association of the Company. The management of the Company is led by the general manager of the Company and he is responsible for supervising the Company's daily business operation, policy planning and implementation as well as being held accountable to the Board in respect of the operation and business of the Company. The general manager keeps in contact with all Directors and ensures Directors' timely understanding of the information in relation to the operating activities of the Group. The Articles of Association of the Company as considered and approved at the general meeting has clarified the terms of reference of the Board and the management.

During the Reporting Period, the Company has made some revisions and improvement to some contents in the rules of procedures for the Board meetings in accordance with the Company Law and Articles of Association of the Company, deleting the content that the board chairman is entitled to one additional vote and adding the content that the notice for the board meeting can be sent by email.

During the Reporting Period, the Board convened a total of 7 meetings (including the extraordinary meetings of the Board held by way of telecommunication), including 4 regular meetings.

CORPORATE GOVERNANCE *(continued)*

(III) CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Zhao Yanshui acts as the Chairman of the Board and the general manager of the Company. The Board considers that such structure would not affect the balance of power and duties between the Board and the management. The Board of the Company is composed of highly experienced and talented members and meetings are held regularly to discuss issues that may affect the operations of the Company's operations. The operation of the Board is sufficient to ensure the balance of powers and duties. The Board believes that this structure will be helpful in establishing a steady and consistent leadership, which enables the Company to make and implement various decisions efficiently and effectively. The Board is full of confidence in Mr. Zhao and believes that the current appointment of him as the Chairman and General Manager will be beneficial for the business development of the Company.

(IV) NON-EXECUTIVE DIRECTORS (INCLUDING INDEPENDENT NON-EXECUTIVE DIRECTORS)

The terms of office of the non-executive Directors, Mr. Yan Linjiao, Mr. Guo Zhiqiang, and Mr. Liu Jiguo, and those of the independent non-executive Directors, Mr. Hong Xianguo, Mr. Zhang Qiusheng, Mr. Xing Min and Mr. Wu Tak Lung, commenced from 20 December 2012 and up to 19 December 2015. The terms of office of the non-executive Director, Mr. Wang Erlong commenced from 30 December 2013 and up to 19 December 2015.

All the above 10 non-executive/independent non-executive Directors possess proper professional qualifications required to perform the duties of directors. In particular, independent non-executive Director Mr. Hong Xianguo is a senior expert in agricultural machinery industry; independent non-executive Director Mr. Zhang Qiusheng is a senior expert in finance, accounting and corporate mergers and acquisitions; independent non-executive Director Mr. Xing Min is a senior expert in combustion engine industry; and independent non-executive Director Mr. Wu Tak Lung is a senior expert in terms of finance and investment management, etc.



CORPORATE GOVERNANCE *(continued)*

(V) BOARD DIVERSITY POLICY

The board diversity policy formulated by the Company aims to cause the Company to take into account the composition of the board members from various aspects when electing and appointing them, including but not limited to gender, age, race, cultural and educational background, professional experiences, knowledge and expertise, thereby avoiding a collective mindset of the Board from simplex composition and allow board members to consider issues from different perspectives so as to enable the Board to be more deliberate and prudent in making any important decisions.

The sixth session of the Board has diversified feature, its members' ages range between 40 and 60, with backgrounds of financial experts, industry experts in agriculture machinery, power machinery and experienced persons in the fields of finance and investment , their knowledge structure and expertise are professional and mutually complementary to the overall structure of the Board. A diversified Board provides guarantee and support for the scientific decision-making of the Board.

(VI) AUDITORS' REMUNERATION

Please refer to subsection "APPOINTMENT OR DISMISSAL OF ACCOUNTING FIRM" under Section VI headed "SIGNIFICANT EVENTS".

(VII) INTERNAL CONTROL

Please refer to Section X headed "INTERNAL CONTROL".

CORPORATE GOVERNANCE (*continued*)

(VIII) INVESTOR RELATIONS

During the Reporting Period, the Company provided convenience and platform for the shareholders' attending the general meetings and communication with the Company's management by way of providing online vote, holding cash bonus distribution meetings and results briefings at the time of holding general meetings, and conducted active communication and exchange with the shareholders.

In 2013, Though hosting on site management road show, investors for visit, telephone conference and participating in activities including investor forums, the Company maintained communication with investors. During the Reporting Period, The Company management has organized 10 one-to-one panel meetings with long-line institutional investors, 30 one-to-one teleconferences and received 17 visits by the institutional fund managers and analysts through on site road show. In addition, the Company actively answered the questions from A-Share investors through E-platform of Shanghai Stock Exchange, and released updates on communication with the investors on a monthly basis, summary and provide the company information for them.

VI. DESCRIPTION OF THE BOARD OF SUPERVISORS ON THE RISKS IN THE COMPANY

Please refer to Section XI headed "REPORT OF THE BOARD OF SUPERVISORS" for the major work of the Board of Supervisors during the Reporting Period.

VII. THE COMPANY POSSESS FULLY INDEPENDENT BUSINESS SYSTEM AND ABILITY OF SELF-OPERATION IN THE MARKET, IT IS INDEPENDENT OF THE CONTROLLING SHAREHOLDERS IN THE RESPECT OF BUSINESS, STAFF, ASSETS, INSTITUTIONS, ASSETS AND FINANCE.



CORPORATE GOVERNANCE *(continued)*

VIII. APPRAISAL MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD AND ESTABLISHMENT AND IMPLEMENTATION OF MOTIVATION MECHANISM

The evaluation of the Company's senior management members and incentive mechanisms are discussed and passed by the Remuneration Committee of the Board and submit to the Board for approval. Evaluation of senior management members incentives consists of two parts: the annual remuneration management and medium to long term incentives. Incentive mechanism consists of three parts: budget, KPI target, work priorities and completion results of the operating indicators of division; medium to long term incentive funds have a cycle of three years and distributions are based on the evaluation results. It is a continuously rolling assessment and is being implemented annually. Evaluation results are reflected in the annual remuneration and medium to long term incentives. In 2013, based on the actual situations, the Company has made some revisions to the conditions on evaluation indicators and medium to long term incentives under the Provisional Measures on Remuneration Incentive management and medium to long term incentives.

IX. SHAREHOLDERS' RIGHTS

Shareholders holding 10% shares or more of the Company singly or jointly are entitled to request holding of extraordinary general meeting or class general meeting and such requests should be handled pursuant to Article 110 of the Articles of Association of the Company.

Pursuant to Article 78 of the Articles of Association of the Company, Shareholders holding 3 % shares or more of the Company are entitled to put forward proposals at the general meeting, Shareholders holding 3 % shares or more of the Company singly or jointly may put forward provisional proposals and submit them to the Board 10 days before convening of the general meeting; the Board shall send supplemental general meeting notice within 2 days after receipt of such proposals to announce the content of the provisional proposals.

For procedures on proposal submission to the general meeting and enquiries sent to the Board, please contact Ms. Yu Lina, the secretary to the Board, whose contact information is set out in the "COMPANY PROFILE".

INTERNAL CONTROL

I. RESPONSIBILITY STATEMENT ON INTERNAL CONTROL AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

According to the requirements of internal control regulation systems, it is the responsibility of the Board to put in place a sound and effective internal control mechanism, assess its effectiveness and honestly disclose in the internal control assessment reports. The Board of Supervisors shall oversee the establishment and implementation of the internal control mechanism by the Board. The management shall be responsible for the day-to-day operation of this mechanism. The Board, Board of Supervisors and Directors, Supervisors and the senior management of the Company hereby warrant that there are no false representations, misleading statements contained in or material omissions from this Annual Report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information herein contained.

The objectives of the internal control are to reasonably ensure that the Company's operation and management are in compliance with laws and regulations, to guarantee assets safety and that the financial reports and relevant information are true and accurate, to improve efficiency and effect of operation, and to facilitate achievement of the Company's development strategies. Given its intrinsic limitations, internal control can only provide reasonable assurance for the above objectives. In addition, changes in circumstances may render the internal control inappropriate or relevant policies and procedures followed at a lower level. There are risks involved in forecasting the effectiveness of future internal control based on the results of internal control assessment.

Pursuant to the Basic Norms of Corporate Internal Control and the Supporting Guidelines for Corporate Internal Control jointly issued by the five Ministries such as the Ministry of Finance and regulatory requirements of the listing regulators and based on the actual situations, the Company has formulated the Management Manual on Internal Control of the Company. On organisation structure and department setting, the Company has set up function divisions based on the business features and management requirements and formulated the work duties of each division, which is able to perform their respective duties and roles. On the system management, the Company has established various management systems including corporate governance, finance, production, procurement, sales, investment and human resources to ensure orderly and efficient running of the Company.

For details of the Internal Control Audit Report, please refer to the Company's announcement.

II. DESCRIPTION OF AUDIT REPORT ON INTERNAL CONTROL

The Company has engaged Baker Tilly China Certified Public Accountants to perform review and assessment on the effectiveness of the internal control of the financial report and believed the Company maintained effective internal control over financial reporting in all material respect in accordance with the Basic Norms of Corporate Internal Control and the relevant provisions.

For details of the Internal Control Audit Report, please refer to the Company's announcement.

III. DESCRIPTION ON THE SYSTEM OF ACCOUNTABILITY FOR SIGNIFICANT MISTAKES IN ANNUAL REPORT AND ITS IMPLEMENTATION

During the Reporting Period, the Company has strictly implemented relevant provisions on accountability for significant disclosure mistakes in annual report under the System on Accountability for Significant Mistakes in Annual Report of the Company. No significant accounting mistake correction, replenishment of material mission information and results pre-announcement correction were found.



REPORT OF THE BOARD OF SUPERVISORS

The sixth session of the Board of Supervisors consists of 6 supervisors, of which there are two employee representatives. The quorum and composition of the Board of Supervisors are in compliance with the requirements of relevant laws and regulations. During the Reporting Period, each Supervisor abided by the principles of trust and fiduciary duty, and starting from the principles of safeguarding the interests of both company and shareholders, they have carried out their work in a careful, just, prudent and responsible manner to perform their duties and actively conduct supervision work on a loyal basis.

I. MEETINGS OF THE BOARD OF SUPERVISORS IN 2013

During the Reporting Period, the Board of Supervisors attended or were present at the general meeting and each board meeting pursuant to the Articles of Association and the Rules of Procedure for the Board of Supervisors of the Company and performed effective supervision over the compliance in respect of the Company's preparation of annual report, connected transactions, holding of general meetings and performance of duties by senior management and other important matters. During the Reporting Period, the Board of Supervisors held 6 meetings, with details as follows:

1. At the second meeting of the fifth session of the Board of Supervisors on 27 March 2013, it considered and approved the 2012 annual report summary, 2012 financial report, 2012 dividend distribution proposal, 2012 social responsibility report, 2012 internal control self-evaluation report, special report on raised capital deposits and actual use and resolution on using temporarily spare proceeds to supplement working capital, and listened to the 2012 work report on investors relation management.
2. At the third meeting of the sixth session of the Board of Supervisors on 25 April 2013, it considered and approved the 2013 first quarterly report.
3. At the fourth meeting of the sixth session of the Board of Supervisors on 26 June 2013, it considered and approved the resolution on use of idle proceeds to manage cash.
4. At the fifth meeting of the sixth session of the Board of Supervisors on 10 July 2013, it considered and approved the resolution on power machinery business restructuring of the Company.
5. At the sixth meeting of the sixth session of the Board of Supervisors on 20 August 2013, it considered and approved the 2013 interim report and 2013 interim special report on deposits and actual use of funds raised.
6. At the seventh meeting of the sixth session of the Board of Supervisors on 29 October 2013, it considered and approved the 2013 third quarterly report.

REPORT OF THE BOARD OF SUPERVISORS (*continued*)

II. WORK OF THE BOARD OF SUPERVISORS

1. **Audit opinions on the financial report and the 2013 Annual Report of the Company**

During the Reporting Period, the Board of Supervisors maintained full communication with the management, listened to the work report from the financial officer, audited the financial report and reviewed audit report issued by the accounting firms to carefully perform the supervision and checking on the financial position and finance management work. The 2013 financial report has been audited by Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong respectively in accordance with CASBE and HKFRS, both of which issued an unqualified audit report.. The Board of Supervisors was of the view that the financial accounting was standardized, with sound internal control system, and accounting and financial management system were effectively implemented. The preparation and audit procedure of the Company's 2013 Annual Report is in compliance with laws, regulations, the Articles of Association and internal management systems of the Company. Its contents and format conformed with the requirement of CSRC and the Shanghai Stock Exchange. The information contained therein reflects the Company's operation, management and financial status in 2013. The Board of Supervisors is not aware of any breach of confidentiality requirements on the part of the persons involved in the preparation and consideration of the 2013 Annual Report.



REPORT OF THE BOARD OF SUPERVISORS *(continued)*

2. Independent opinions on the lawful operation of the Company

(1) Connected transactions

During the Reporting Period, the Board of Supervisors has carefully considered the connected transactions referred to in the resolution on power machinery business restructuring of the Company, and was of the view that the connected transactions of the Company are fair and just. They are considered, voted and disclosed in accordance with the requirements. Such transactions were executed with no abnormal conditions and without prejudice to the Company's interests.

(2) Use of proceeds

During the Reporting Period, the approval and disclosure procedure on the raised capital deposited into the special account, temporarily spare proceeds to replenish working capital and built assets from large power diesel engines put into controlled subsidiaries as additional capital are in compliance with the Prospectus and the requirements of the Management System on Use of Raised Capital.

(3) Evaluation Report on Internal Control

During the Reporting Period, the Company has performed self-evaluation on internal control under the Basic Norms of Corporate Internal Control and the Guidelines for Corporate Internal Control of Listed Companies jointly issued by the Ministry of Finance and CSRC,

The Board of Supervisors carefully listened and considered the 2013 Evaluation Report on Internal Control and the audit report issued by Baker Tilly China Certified Public Accountants. The Board of Supervisors was of the view that, the Company has set up sound internal control system which conforms to the current production and operation needs, thereby effectively implementing the internal control, ensure the standardized operation and bring management and control into play. No material defects of internal control were found during the reporting period. The Evaluation Report on Internal Control gives a true and objective picture of the establishment and implementation of the internal control.

REPORT OF THE BOARD OF SUPERVISORS *(continued)*

(4) Supervision of production operation and decision making procedure of the Company

The Board of Supervisors is of the opinion that, during the Reporting Period, the Company carried out all its production and operation activities in a normative way in strict compliance with all PRC laws, regulations and the Articles of Associations of the Company and the decision making process is lawful. None of the Directors and senior management members had violated any laws or regulations or the Articles of Association of the Company nor damaged the interests of the Company or the investors when performing their duties.

(5) Supervision over the investor relation management of the Company during the Reporting Period

The Board of Supervisors supervised the implementation of the Working Rules on Investor Relationship Management in 2013. In 2013, the Company, on the foundation of investors communication disclosure, communicated with investors through management roadshows, general meetings and analyst meetings, which enabled the investors to be informed of the operation and management information of the Company. The investor relation work of the Company in 2013 was in compliance with the requirements of Working Rules on Investor Relationship Management.



SUPPLEMENTARY INFORMATION

FINANCIAL CONGLOMERATE

Pursuant to paragraphs 35 and 36 of Appendix 16 to the Listing Rules, the Group is regarded as a “Financial Conglomerate” as one or more of the percentage ratios of its financial business exceeds 5%. The following details are the supplementary information related to the Group’s financial business, which forms part of the audited financial statements.

FINANCIAL BUSINESS

During the Reporting Period, all the Group’s financial businesses were conducted in the PRC. The Group’s financial businesses are primarily undertaken by YTO Finance, a controlled subsidiary of the Company. The principal financial businesses of YTO Finance include assistance to member companies (YTO and its member companies) in payment and receipt of transaction proceeds; dealing with entrusted loans and entrusted investments among its Group companies; provision of bills acceptance and discounting services to its member companies; provision of intra-group transfer and settlement services to its member companies; provision of deposit services to its member companies; provision of loans to its member companies; provision of inter-industry loans; underwriting of corporate bonds of its member companies; making equity investments in financial institutions; and provisions of buyer’s credit and finance lease in respect of the products of its member companies.

A Risk Management Committee was established under the board of directors of YTO Finance to avert financial risk and so did the Auditing Department to inspect the company’s operations (either periodical or non-periodical) and to issue independent audit report and accountable to the board of directors. Under the management of YTO Finance, the Internal Control Committee, Assets-Liabilities Management Committee, Credit Review Committee and Investment Audit Committee were established to manage and control YTO Finance’s internal control system, assets and liabilities structure, different credit and investment businesses. YTO Finance also established a Compliance Department to manage its corporate system and risk resistance and control.

KEY RISK MANAGEMENT

Credit risk

Credit risk is the risk that a customer or counterparty is unable to meet its obligation in connection with the credit business of YTO Finance when it falls due.

SUPPLEMENTARY INFORMATION *(continued)*

YTO Finance has adhered to a prudent business approach in conducting its credit business and has established a set of strict credit granting criteria and approving system to control and manage credit risks. Given top priority on risk control, the Loan Approval Committee formulated credit policies and determined the cap of facilities to ensure that each credit transaction is subject to a comprehensive consideration and approval. The credit department of YTO Finance strictly implemented loan systems and business procedures such as Administration Measures for Loans and Procedures for Loan Business to minimize credit risk. The auditing department of YTO Finance supervised the implementation of the loans approving system and post-credit inspection system in accordance with the requirements of risk control and ensured collection of loans on maturity, so as to avoid credit risk.

Market risk

Market risk is the risk of potential gain or loss from holding a financial instrument or business (including in-balance and off-balance sheets) as a result of changes in interest rates, stock prices, commodity prices and governmental policies.

YTO Finance is mainly exposed to such market risks as interest rate risk.

The interest rate risk of YTO Finance arises from the re-pricing risk of its deposit and loan businesses, which is also known as maturity mismatching risk due to the different maturity profile of the assets and liabilities. As a result of the re-pricing mismatching, the revenue or intrinsic economic value of YTO Finance will vary with the interest rate. The Risk Management Committee of YTO Finance, which is responsible for the comprehensive ongoing monitoring of the market risk arising from changes in interest rate, will evaluate on a regular basis the sensitivity and re-pricing gap of interest rate among different terms as well as the influence of changes in interest rate on the net interest income and economic value of YTO Finance under different interest scenarios, so as to reduce the potential adverse impact of changes in interest rate on the net interest income and economic value.

Liquidity risk

Liquidity risk (also known as payment risk) is the risk that YTO Finance is unable to arrange for financing to reduce liabilities or increase assets, which in turn affects YTO Finance's profitability or causes difficulties for settlement.

Closely monitoring the composition and condition of its assets, the Assets-Liabilities Management Committee of YTO Finance carried out analysis and assessment on the liquidity and paying ability of the assets of YTO Finance based on the assets-liabilities benchmarks fixed by CBRC, thereby setting out or adjusting the corresponding operating policies to maximize the Company's interests on the basis of payment guarantee. During the Reporting Period, YTO Finance strictly followed established rules and business procedures, regularly convened meetings for the Assets-Liabilities Committee, supervised and controlled liquidity and ensured that the level of liquidity ratio is not less than 25%.



SUPPLEMENTARY INFORMATION *(continued)*

Compliance risk

Compliance risk is the risk that a company may be subject to legal sanction or regulatory punishment or incur material financial loss or reputation loss due to its failure to comply with laws, rules and standards.

Through establishing a strong compliance culture, an effective compliance risk management system, accountability system for compliance risk management and the position of legal consultant, YTO Finance effectively prevented the compliance risk.

During the Reporting Period, the CBRC Luoyang Branch ("CBRC Luoyang Branch") gave the following regulatory comment for YTO Finance: its various indicators are in compliance with regulatory standards and keep improving; it continues to maintain zero non-performing assets and its assets are of high quality; it has adequate capital and strong asset liquidity, with liquidity ratio and excess reserve ratio far exceeding regulatory indicators; in 2013, it has made a provision of RMB34,530,000 against Loan losses, further enhancing its capacity to withstand bad-debt losses.

As at 31 December 2013, YTO Finance's capital adequacy ratio was 23.19%; excess reserve ratio was 42.03%; liquidity ratio was 68.10%; self-owned fixed assets investment ratio was 0.49%; investment ratio was 58.79%; loan-loss reserve adequacy ratio exceeded 100%; non-performing loan ratio was 0; and distressed assets ratio was 0. All the above ratios were in compliance with the requirements of regulations and supervision of CBRC.

PUBLIC FLOAT

Pursuant to the published information and to the knowledge of the Directors, as at the date hereof, the Company has maintained the required public float under the Listing Rules.

TAX CONCESSIONS

None of the holders of the Company's listed securities was entitled to any tax concessions for holding securities of the Company.

INDEPENDENT AUDITOR'S REPORT

**BAKER TILLY****HONG KONG | 天職香港****TO THE SHAREHOLDERS OF FIRST TRACTOR COMPANY LIMITED***(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of First Tractor Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 107 to 280, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



INDEPENDENT AUDITOR'S REPORT *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BAKER TILLY HONG KONG LIMITED

Certified Public Accountants

Choi Kwong Yu

Practising Certificate Number P05071

Hong Kong, 27 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Revenue	7	11,037,840	11,508,044
Cost of sales		<u>(9,332,664)</u>	<u>(9,956,425)</u>
Gross profit		1,705,176	1,551,619
Other income and gains	7	157,884	99,169
Selling and distribution costs		(403,516)	(355,033)
Administrative expenses		(845,227)	(765,671)
Other operating expenses, net		(201,244)	(7,540)
Finance costs	8	(80,013)	(62,686)
Share of profits of associates		<u>904</u>	<u>1,629</u>
Profit before income tax	9	333,964	461,487
Income tax expense	12	<u>(72,229)</u>	<u>(71,101)</u>
Profit for the year		<u>261,735</u>	<u>390,386</u>
Other comprehensive income, net of tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		9,593	(2,412)
Reclassification adjustments related to available-for-sale financial assets disposed of during the year		16,981	—
Net (loss)/gain on revaluation of available-for-sale financial assets		<u>(10,975)</u>	<u>2,557</u>
Other comprehensive income for the year		<u>15,599</u>	<u>145</u>
Total comprehensive income for the year		<u>277,334</u>	<u>390,531</u>



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Profit for the year attributable to:			
Owners of the Company		221,950	324,964
Non-controlling interests		<u>39,785</u>	<u>65,422</u>
		<u>261,735</u>	<u>390,386</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	13	238,353	325,630
Non-controlling interests		<u>38,981</u>	<u>64,901</u>
		<u>277,334</u>	<u>390,531</u>
Dividends	14	<u>59,754</u>	<u>99,590</u>
Earnings per share			
Basic and diluted	15	<u>RMB22.29 cents</u>	<u>RMB36.27 cents</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		2013	2012	2011
	Note	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
Non-current assets				
Property, plant and equipment	16	3,098,211	2,558,568	2,290,789
Investment properties	17	31,160	32,511	33,861
Prepaid operating leases	18	863,294	757,715	695,853
Intangible assets	19	64,962	63,685	61,631
Interests in associates	21	9,185	7,810	19,815
Available-for-sale financial assets	22	137,581	159,450	179,350
Loan receivables	23	15,360	45,653	34,302
Deferred income tax assets	37	76,350	64,585	46,667
Total non-current assets		4,296,103	3,689,977	3,362,268
Current assets				
Inventories	24	1,766,106	1,469,866	1,294,690
Trade and bill receivables	25	2,321,906	2,335,126	2,530,470
Available-for-sale financial assets	22	—	—	23,360
Loan receivables	23	709,963	748,078	579,187
Prepayments, deposits and other receivables	26	689,970	758,963	637,123
Income tax recoverable		11,099	8,621	6,252
Financial assets at fair value through profit or loss	27	359,095	306,801	77,398
Held-to-maturity financial assets	28	25,602	52,090	—
Pledged bank deposits	29	180,276	197,201	185,748
Cash and cash equivalents	29	1,700,530	1,771,296	1,434,750
Total current assets		7,764,547	7,648,042	6,768,978

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*continued*)

As at 31 December 2013

		2013	2012	2011
	Note	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
Current liabilities				
Trade and bill payables	30	2,746,608	2,703,480	2,569,078
Other payables and accruals	31	658,372	907,571	897,959
Customer deposits	32	569,110	1,046,641	1,047,071
Placements from banks and non-bank financial	33	350,000	360,000	200,000
Borrowings	34	592,437	451,241	969,468
Current income tax liabilities		24,342	30,297	37,885
Provisions	35	42,092	70,611	76,676
Total current liabilities		4,982,961	5,569,841	5,798,137
Net current assets		2,781,586	2,078,201	970,841
Total assets less current liabilities		7,077,689	5,768,178	4,333,109

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2013

		2013	2012	2011
	Note	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
Non-current liabilities				
Borrowings	34	1,573,962	617,500	186,000
Deferred income	36	180,889	161,440	111,728
Deferred income tax liabilities	37	49,917	15,209	15,130
Provisions	35	44,620	31,460	43,004
Total non-current liabilities		1,849,388	825,609	355,862
Net assets		5,228,301	4,942,569	3,977,247
Equity				
Attributable to Owners of the Company				
Share capital	38	995,900	995,900	845,900
Reserves	39(a)	3,418,241	3,321,591	2,593,448
Proposed final dividend	14	59,754	99,590	—
		4,473,895	4,417,081	3,439,348
Non-controlling interests		754,406	525,488	537,899
Total equity		5,228,301	4,942,569	3,977,247

The accompanying notes are an integral part of the consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 27 March 2014.

Zhao Yanshui
Director

Liu Jiguo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Attributable to Owners of the Company													
	Issued share capital RMB'000 Note	Share premium RMB'000 Note 38	Capital reserve RMB'000 Note 39(a)	Statutory surplus reserve RMB'000 Note 39(a)	General surplus reserve RMB'000 Note 39(a)	General and statutory fund RMB'000 Note 39(a)	Available- financial assets reserve RMB'000		Exchange reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012													
As previously reported	845,900	1,539,938	(80,102)	195,038	64,744	6,291	521	(25,434)	867,673	—	3,414,569	537,899	3,952,468
Business combination under common control	3.1	—	—	115,918	—	—	—	—	(91,139)	—	24,779	—	24,779
As restated	845,900	1,539,938	35,816	195,038	64,744	6,291	521	(25,434)	776,534	—	3,439,348	537,899	3,977,247
Comprehensive income													
Profit for the year	—	—	—	—	—	—	—	—	324,964	—	324,964	65,422	390,386
Other comprehensive income													
Currency translation differences	—	—	—	—	—	—	—	(2,010)	—	—	(2,010)	(402)	(2,412)
Fair value gain/(loss) on available-for-sale financial assets, net of tax	—	—	—	—	—	—	2,676	—	—	—	2,676	(119)	2,557
Total other comprehensive income, net of tax	—	—	—	—	—	—	2,676	(2,010)	—	—	666	(521)	145
Total comprehensive income for the year	—	—	—	—	—	—	2,676	(2,010)	324,964	—	325,630	64,901	390,531

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2013

Attributable to Owners of the Company													
						Available-							
	Issued	Share	Capital	Statutory	General	General	for-sale		Retained	Proposed		Non-	Total
	share	premium	reserve	surplus	surplus	and	financial	Exchange	earnings	final		controlling	equity
	capital			reserve	reserve	statutory	assets	reserve		dividend		interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Note	Note 38	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)						
Contributions by and distributions to Owners of the Company recognised directly in equity													
Acquisition of additional interests in subsidiaries	40(a)	—	—	86,143	—	—	—	—	—	—	86,143	(90,767)	(4,624)
Business combination under common control		—	—	(98,511)	—	—	—	—	—	—	(98,511)	—	(98,511)
Capital contribution from former shareholders		—	—	50,000	—	—	—	—	—	—	50,000	—	50,000
Contribution from non-controlling interest of a subsidiary		—	—	—	—	—	—	—	—	—	—	91,840	91,840
Dividends paid to non-controlling shareholders of a subsidiary		—	—	—	—	—	—	—	—	—	—	(78,385)	(78,385)
Dividends paid to former shareholders of a subsidiary related to business combination under common control		—	—	—	—	—	—	—	(159,262)	—	(159,262)	—	(159,262)
Proposal final 2012 dividend	14	—	—	—	—	—	—	—	(99,590)	99,590	—	—	—
Issue of A shares		150,000	623,733	—	—	—	—	—	—	—	773,733	—	773,733
Transfers from/(to) reserves	39(a)	—	—	—	43,096	—	279	—	(43,375)	—	—	—	—
Total contributions by and distributions to Owners of the Company recognised directly in equity		<u>150,000</u>	<u>623,733</u>	<u>37,632</u>	<u>43,096</u>	<u>—</u>	<u>279</u>	<u>—</u>	<u>(302,227)</u>	<u>99,590</u>	<u>652,103</u>	<u>(77,312)</u>	<u>574,791</u>
Balance at 31 December 2012		<u>995,900</u>	<u>2,163,671*</u>	<u>73,448*</u>	<u>238,134*</u>	<u>64,744*</u>	<u>6,570*</u>	<u>3,197*</u>	<u>(27,444)*</u>	<u>799,271*</u>	<u>99,590</u>	<u>4,417,081</u>	<u>525,488</u>
		<u>995,900</u>	<u>2,163,671*</u>	<u>73,448*</u>	<u>238,134*</u>	<u>64,744*</u>	<u>6,570*</u>	<u>3,197*</u>	<u>(27,444)*</u>	<u>799,271*</u>	<u>99,590</u>	<u>4,417,081</u>	<u>525,488</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 December 2013

Attributable to Owners of the Company													
	Note	Issued	Share	Capital	Statutory	General	General	Available-	Exchange	Retained	Proposed	Non-	Total
		share	premium	reserve	surplus	surplus	and	for-sale	reserve	earnings	final	controlling	equity
		capital			reserve	reserve	statutory	financial	reserve		dividend	Total	interests
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 38	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)					
Balance at 1 January 2013													
As previously reported		995,900	2,163,671	(92,470)	238,134	64,744	6,570	3,197	(27,444)	914,504	99,590	4,366,396	525,488
Business combination													
under common control	3.1	—	—	165,918	—	—	—	—	—	(115,233)	—	50,685	—
As restated		995,900	2,163,671	73,448	238,134	64,744	6,570	3,197	(27,444)	799,271	99,590	4,417,081	525,488
Comprehensive income													
Profit for the year		—	—	—	—	—	—	—	—	221,950	—	221,950	39,785
Other comprehensive income													
Currency translation differences		—	—	—	—	—	—	—	11,442	—	—	11,442	(1,849)
Reclassification adjustments													
related to available-for-sale													
disposed		—	—	—	—	—	—	15,738	—	—	—	15,738	1,243
Fair value gain/(loss) on													
available-for-sale financial													
assets, net of tax		—	—	—	—	—	—	(10,777)	—	—	—	(10,777)	(198)
Total other comprehensive													
income, net of tax		—	—	—	—	—	—	4,961	11,442	—	—	16,403	(804)
Total comprehensive income													
for the year		—	—	—	—	—	—	4,961	11,442	221,950	—	238,353	38,981

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2013

Attributable to Owners of the Company													
	Note	Issued	Share	Capital	Statutory	General	General	Available-	Exchange	Retained	Proposed	Non-	Total
		share	premium	reserve	surplus	surplus	and	for-sale	reserve	earnings	final	controlling	equity
		capital			reserve	reserve	statutory	financial	reserve		dividend	Total	interests
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 38	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)	Note 39(a)					
Contributions by and distributions to Owners of the Company recognised directly in equity													
Acquisition of subsidiaries	41(a)	—	—	—	—	—	—	—	—	—	—	159,926	159,926
Acquisition of additional interests in subsidiaries	40(a)	—	—	(27,863)	—	—	—	—	—	—	—	(27,863)	(17,562)
Business combination under common control		—	—	(54,086)	—	—	—	—	—	—	—	(54,086)	—
Contribution from non-controlling interest of a subsidiary		—	—	—	—	—	—	—	—	—	—	50,960	50,960
Dividends paid to non-controlling shareholders of a subsidiary		—	—	—	—	—	—	—	—	—	—	(3,387)	(3,387)
Dividends related to 2012		—	—	—	—	—	—	—	—	—	(99,590)	(99,590)	—
Proposal final 2013 dividend	14	—	—	—	—	—	—	—	—	(59,754)	59,754	—	—
Transfers from/(to) reserves	39(a)	—	—	—	23,870	—	527	—	—	(24,397)	—	—	—
Total contributions by and distributions to Owners of the Company recognised directly in equity		<u>—</u>	<u>—</u>	<u>(81,949)</u>	<u>23,870</u>	<u>—</u>	<u>527</u>	<u>—</u>	<u>—</u>	<u>(84,151)</u>	<u>(39,836)</u>	<u>(181,539)</u>	<u>189,937</u>
Balance at 31													
December 2013		<u>995,900</u>	<u>2,163,671*</u>	<u>(8,501)*</u>	<u>262,004*</u>	<u>64,744*</u>	<u>7,097*</u>	<u>8,158*</u>	<u>(16,002)*</u>	<u>937,070*</u>	<u>59,754</u>	<u>4,473,895</u>	<u>754,406</u>
													<u>5,228,301</u>

* These reserve accounts comprise the consolidated reserves of approximately RMB 3,418,241,000 (2012: approximately RMB3,321,591,000 (restated)).

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Operating activities			
Profit before income tax		333,964	461,487
Adjustments for:			
Finance costs	8	80,013	62,686
Share of profits of associates		(904)	(1,629)
Bank interest income	7, 9	(11,759)	(7,394)
Loss on disposal of property, plant and equipment, net	7, 9	2,925	9,025
Gain on bargain purchase	7, 9, 41(a)	(84,460)	—
Depreciation of:-			
Property, plant and equipment	9, 16	225,096	202,979
Investment properties	9, 17	1,351	1,350
Amortisation of:-			
Prepaid operating leases	9, 18	23,997	17,036
Intangible assets	9, 19	1,012	8
Dividend income from listed investments	7, 9	(2,563)	(2,510)
Dividend income from unlisted investments	7, 9	(16,124)	(30,672)
Loss/(gain) on disposal of available-for-sale financial assets, net	7, 9	9,167	(4,236)
Gain on disposal of financial assets at fair value through profit or loss, net	7, 9	(13,611)	(11,827)
Provision for impairment of goodwill, net	9, 41(a)	14,298	—
Provision for impairment of available-for-sale financial assets	9	10,070	—
Provision for impairment of inventories, net	9, 24	12,893	11,961
(Reversal of)/provision for impairment of loan receivables, net	9, 23	(4,331)	409
Provision for/(reversal of) impairment of trade receivables, net	9, 25	119,422	(2,000)
Provision for impairment of other receivables, net	9, 26	316	6,324
Recognition of government grants	7, 36	(17,821)	(34,152)
Fair value gain on financial assets at fair value through profit or loss, net	7, 9	(676)	(3,460)
Fair value gain on remeasurement of interests in associates	7, 9	—	(938)
Operating cash flows before changes in working capital		682,275	674,447

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2013

Note	2013 RMB'000	2012 RMB'000 (Restated)
Increase in inventories	(302,711)	(182,735)
(Increase)/decrease in trade and bill receivables	(99,683)	205,032
Decrease/(increase) in loan receivables	72,739	(180,651)
Decrease/(increase) in prepayments, deposits and other receivables	80,551	(127,269)
Increase in financial assets at fair value through profit or loss	(38,007)	(214,116)
Decrease in pledged bank deposits for bill payables and other banking facilities	16,925	5,679
Decrease in mandatory reserve deposits with the People's Bank of China	71,629	6,794
Increase in trade and bill payables	36,974	128,779
(Decrease)/increase in other payables and accruals	(173,004)	116,970
Decrease in customer deposits	(477,531)	(430)
(Decrease)/increase in placements from bank and non-bank financial institutions	(10,000)	160,000
Increase in bills discounted payables	97,401	8,253
Decrease in provisions	(35,688)	(17,609)
Cash (used in)/generated from operations	(78,130)	583,144
Interest received	11,759	7,394
Income tax paid	(65,535)	(98,975)
Net cash (used in)/generated from operating activities	(131,906)	491,563



CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Investing activities			
Dividend received from listed investments	7, 9	2,563	2,510
Dividend received from unlisted investments	7, 9	16,124	30,672
Purchase of property, plant and equipment		(473,605)	(483,533)
Proceeds from disposal of property, plant and equipment		10,466	6,799
Purchase of prepaid operating leases	18	(12,804)	(76,143)
Purchase of intangible assets	19	(2,308)	(1,984)
Purchase of available-for-sale financial assets		—	(980)
Proceeds from disposal of available-for-sale financial assets		16,340	51,112
Purchase of held-to-maturity financial assets		(153,812)	(52,090)
Receipt from the maturity of held-to-maturity financial assets		180,300	—
Receipt of government grants	36	34,502	83,864
Purchase of an associate		(1,200)	—
Dividend received from associates		729	729
Business combination of acquisition of a subsidiary under common control		(124,782)	(329,055)
Acquisition of additional interest in subsidiaries	40	(9,051)	(4,624)
Acquisition of subsidiaries	41	446	(15,523)
Net cash used in investing activities		(516,092)	(788,246)

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2013

		2013	2012
	<i>Note</i>	RMB'000	<i>RMB'000</i>
			(Restated)
Financing activities			
Interest paid		(59,280)	(84,493)
Proceeds from borrowings		410,614	1,383,366
Repayments of borrowings		(970,949)	(1,482,497)
Proceeds from issue of bonds		1,500,000	—
Bonds issue expenses		(11,595)	—
Contributions from non-controlling shareholders of a subsidiary/subsidiaries		50,960	91,840
Contributions from shareholders of business combination under common control		—	50,000
Proceeds from issue of A shares	38	—	810,000
Shares issue expenses		—	(36,267)
Dividends paid to shareholders of the Company	14	(99,590)	—
Dividends paid to non-controlling shareholders		(27,302)	(54,085)
Dividends paid to former shareholders of business combinations under common control		(137,403)	(21,859)
Net cash generated from financing activities		655,455	656,005
Net increase in cash and cash equivalents		7,457	359,322
Effect of exchange rate changes, net		(6,594)	1,150
Cash and cash equivalents at beginning of year		1,614,300	1,253,828
Cash and cash equivalents at end of year	29	1,615,163	1,614,300

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	16	1,314,303	1,375,737
Prepaid operating leases	18	406,946	441,205
Intangible assets	19	59,526	59,526
Interests in subsidiaries	20	3,028,897	2,093,672
Interests in associates	21	1,192	—
Available-for-sale financial assets	22	35,992	45,852
Deferred income tax assets	37	5,033	6,790
Total non-current assets		4,851,889	4,022,782
Current assets			
Inventories	24	627,834	343,290
Trade and bill receivables	25	1,510,482	1,712,762
Prepayments, deposits and other receivables	26	504,374	517,974
Loans to subsidiaries	20	107,000	107,000
Deposits placed with a subsidiary	20	823,806	548,484
Pledged bank deposits	29	132,902	87,256
Cash and cash equivalents	29	127,711	411,815
Total current assets		3,834,109	3,728,581
Current liabilities			
Trade and bill payables	30	1,732,868	1,647,550
Other payables and accruals	31	123,023	194,908
Borrowings	34	751,145	886,041
Current income tax liabilities		3,200	18,815
Provisions	35	15,479	20,258
Total current liabilities		2,625,715	2,767,572
Net current assets		1,208,394	961,009
Total assets less current liabilities		6,060,283	4,983,791

STATEMENT OF FINANCIAL POSITION (*continued*)

As at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Borrowings	34	1,573,962	617,500
Deferred income	36	139,526	140,932
Deferred income tax liabilities	37	2,717	4,169
Provisions	35	16,093	24,080
Total non-current liabilities		1,732,298	786,681
Net assets		4,327,985	4,197,110
Equity			
Share capital	38	995,900	995,900
Reserves	39(b)	3,272,331	3,101,620
Proposed final dividend	14	59,754	99,590
Total equity		4,327,985	4,197,110

The accompanying notes are an integral part of the consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 27 March 2014.

Zhao Yanshui
Director

Liu Jiguo
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1. GENERAL INFORMATION

First Tractor Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”) with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”) and the Shanghai Stock Exchange (the “SSE”) since 23 June 1997 and 8 August 2012, respectively. The registered office and principal place of business of the Company is located at 154 Jian She Road, Luoyang, Henan Province, the PRC.

The principal activities of the Company and its subsidiaries (together, the “Group”) are:

- manufacture and sale of agricultural machinery
- manufacture and sale of power machinery
- manufacture and sale of other machinery, including forklifts and mining trucks
- provision of loans, bills discounting and deposit-taking services

In the opinion of the directors of the Company, the immediate holding company is YTO Group Corporation Limited (the “Holding Company”) and the ultimate holding company is China National Machinery Industry Corporation (the “Parent”), both of them are established in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Group, and all values are rounded to the nearest thousand unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised HKFRSs issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 Cycle

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group.

HKFRS 10, Consolidated Financial Statements

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates an investee. HKFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, HKFRS 10 requires the Group consolidates investees that it controls on the basis of de facto circumstances.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 as to whether or not the Group has control over the investee in accordance with the new definition of control and the related guidance set out in HKFRS 10, and concluded that the adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)**New and revised HKFRSs issued but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ¹
HKFRS 9	Financial Instruments ³
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to HKAS 32	Presentation — Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle ²
HK(IFRIC) - Interpretation 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014.

² Effective for annual periods beginning on or after 1 July 2014.

³ Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

The Group is assessing of the impact of these amendments, new standards and interpretations in the period of initial application, but is not yet in a position to state whether these would have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.1 Basis of preparation** *(continued)*

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Business Combination under Common Control

In accordance with the Equity Transfer Agreements entered into between the Company and the Holding Company on 14 November 2012, the Company acquired a 100% equity interest in YTO (Luoyang) Foundry Company Limited ("YTO Foundry") at a consideration of approximately RMB104,478,000. The acquisition of YTO Foundry was completed on 22 January 2013 and has been accounted for as combination of businesses under common control since the directors consider that the Company and YTO Foundry are under common control of the Holding Company.

The aforementioned acquisition of subsidiary from the Holding Company has been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. As a result, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the prior years have been restated to include the operating result and cash flows of YTO Foundry since the date of which just came under common control. The consolidated statements of financial position as at 31 December 2012 and 2011 have been restated to include the assets and liabilities of YTO Foundry and results for the year ended 31 December 2012. Respective notes to the consolidated financial statements have also been restated. All significant intra-group transactions, balances, income and expenses are eliminated on combination. The impact of the restatements is set out below in Note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation****(a) Business combination**

- (i) Business combination involving entities under common control

Business combination involving entities under common control has been accounted for by applying the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA.

In applying merger accounting, the consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised for goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is a shorter period, regardless of the date of the common control combination.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 Consolidation *(Continued)*

(a) Business combination *(Continued)*

(i) Business combination involving entities under common control *(Continued)*

The comparative amounts in the consolidated financial statements have been restated as if the business combination had been completed on the earliest date of the periods being presented or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses incurred in relation to the common control combination that are to be accounted for by using merger accounting are recognised as expenses in the year in which they were incurred.

Under common control, the profit or loss arising from the disposal of subsidiaries to the party of common control will be recognised in the statement of comprehensive income if the consideration is assessed to be on fair value terms. Otherwise, if the consideration is assessed not to be on fair value terms, such profit or loss derived will be recognised in the capital reserve.

For common control combinations, the cost of investment is either the cash consideration amount (for cash-settled transaction) or the amount of the net asset value of the subsidiary acquired at date of completion (for share-settled transaction). For non-common control combinations, the cost of investment is the amount of the fair value of the consideration for the subsidiary acquired at date of completion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation** *(Continued)***(a) Business combination** *(Continued)***(ii) Business combination involving entities not under common control**

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date of acquisition.

Any excess of the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Consolidation *(Continued)*

(b) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation** *(Continued)***(b) Subsidiaries** *(Continued)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non - controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment (Note 3.10).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 Consolidation *(Continued)*

(c) Transactions with non-controlling interests

- (i) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

- (ii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation** *(Continued)***(d) Investments in associates**

An associate is an entity over which the Group or the Company 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.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation** *(Continued)***(d) Investments in associates** *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.2 Consolidation** *(Continued)***(d) Investments in associates** *(Continued)*

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

3.4 Foreign currency translation**(a) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Foreign currency translation *(Continued)*

(a) Transactions and balances *(Continued)*

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'Other operating expenses'.

Translation differences on non-monetary financial assets such as available-for-sale financial assets are included in other comprehensive income.

(b) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.4 Foreign currency translation** *(Continued)***(c) Disposal of foreign operation and partial disposal**

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3.5 Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.5 Property, plant and equipment and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful lives as follows:

Freehold land	Not depreciated
Buildings	8–30 years
Plant, machinery and equipment	6–16 years
Transportation vehicles and equipment	6–12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.10).

An item of property, plant and the equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in consolidated statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings and other property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.6 Prepaid operating leases**

Upfront prepayments made for the prepaid lease payments and leasehold land are initially recognised as prepaid operating leases and are expensed in profit or loss on a straight line basis over the periods of the respective leases.

3.7 Intangible assets**(a) Trademarks and licenses**

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have an indefinite useful life and is thus not subject to amortisation. Trademarks and licenses are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(b) Other intangible assets

Other intangible assets acquired are initially recognised at cost and are amortised on a straight-line method over their useful lives.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.8 Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of the investment properties over their estimated useful lives after taking into account their estimated residual value, using the straight line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its 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 profit or loss in the year in which the item is derecognised.

3.9 Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it 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 project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.10 Impairment of investments in subsidiaries, associates and non-financial assets**

Assets that have an indefinite useful life, for example intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairments are reviewed for possible reversal of the impairment at the end of each reporting period.

3.11 Financial assets**(a) Categorisation**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include those classified as held for trading and those designated at fair value through profit or loss.

A financial asset is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.11 Financial assets** *(Continued)***(a) Categorisation** *(Continued)***(i) Financial assets at fair value through profit or loss** *(Continued)*

Financial assets are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', 'loan receivables', 'prepayments, deposits and other receivables', 'placements with banks and non-bank financial institutions', 'pledged bank deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.11 Financial assets** *(Continued)***(a) Categorisation** *(Continued)***(iii) Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are reclassified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.11 Financial assets *(Continued)*

(b) Recognition and measurement *(Continued)*

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the consolidated statement of profit or loss and other comprehensive income within other income and gains/other operating expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss and other comprehensive income as part of other income and gains when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sales are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of profit or loss and other comprehensive income as other income and gains.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of profit or loss and other comprehensive income as part of other income and gains. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income and gains when the Group's right to receive payments is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.12 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.13 Impairment of financial assets**(a) Assets carried at amortised cost**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or 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 reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.13 Impairment of financial assets** *(Continued)***(a) Assets carried at amortised cost** *(Continued)*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.14 Repurchase agreements**

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, and other direct costs and related products an appropriate proportion of overheads (based on normal operating capacity). Net realisable value is the estimated selling prices in the ordinary course of business, less applicable variable selling expenses.

Spare parts and consumables are stated at cost less any provision for obsolescence.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.16 Trade receivables and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.17 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months of acquisition, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

In the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3.18 Trade payables and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.19 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

3.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.21 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.21 Current and deferred income tax** *(Continued)***(b) Deferred income tax** *(Continued)**Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.22 Customer deposits and placements with or from banks and non-bank financial institutions

Customer deposits and placements with or from banks and non-bank financial institutions arising from the Group's financial service are carried at amortised cost using the original effective interest method taking into account the unamortised portion of the relevant fees and expenses.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.23 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or third parties to secure loans and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within other expenses.

Where guarantees in relation to loans of subsidiaries are provided for no compensation, the fair value are accounted for as contributions and recognised as part of the cost of the investment in the statement of financial position of the Company.

3.24 Share capital

Issued shares, including Domestic shares and H shares, are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.25 Employee benefits****(a) Pension obligations**

In accordance with rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceilings. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to these plans are expensed as incurred.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries, subject to a certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.25 Employee benefits** *(Continued)***(c) Termination benefits** *(Continued)*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The termination benefits are offered for a clearly defined period and once the termination plan is confirmed by the employee and the Group, there is no possibility of new participant. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

3.26 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.26 Revenue recognition** *(Continued)*

- (a) Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) Research and development income is recognised in the period in which services were rendered;
- (c) Rental income is recognised on a time proportion basis over the lease terms;
- (d) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (e) Fee and commission income is recognised when the transaction is completed or on the accrual basis when the service is provided over a period of time. These mainly include fee and commission income on the settlement and clearing business; and
- (f) Dividend income is recognised when the shareholders' right to receive payment has been established.

3.27 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

As explained in Note 36, certain government grants obtained are treated as deferred income in the statement of financial position and credited to profit or loss in accordance with conditions set by the government body.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.28 Borrowing costs

General and specific borrowing costs directly attributable to construction, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.29 Leases

(a) The Group as lessor

Rental income from operating leases is recognised in profit or loss on straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease, are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3.30 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until it has been approved by the shareholders in a general meeting. When these dividends had been approved by the shareholders and declared, it is recognised as a liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(CONTINUED)***3.31 Related parties****(a) A person, or a close member of that person's family, is related to the Group if that person:**

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group 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 a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); and
- (vii) 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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT**4.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group uses conservative strategies in its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Market risk**(i) Foreign exchange risk**

The business of the Group is principally located in the PRC. As most of the transactions are in RMB, the Group does not have significant exposure to foreign currency risk. As at 31 December 2013, the Group had short term deposits denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Euro ("EUR") of approximately RMB27,694,000 (2012: approximately RMB28,697,000 (restated)), approximately RMB59,620,000 (2012: approximately RMB RMB49,699,000 (restated)) and approximately RMB33,093,000 (2012: approximately RMB RMB51,839,000 (restated)) (Note 29), respectively. The Group does not use derivative financial instruments to hedge its foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(a) Market risk (Continued)****(i) Foreign exchange risk**

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD, USD and EUR exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities).

Group

	Exchange rates of HKD, USD and EUR increase/ (decrease) %	Increase/ (decrease) in profit before income tax RMB'000
2013		
If RMB strengthens against HKD, USD and EUR	(5)	(6,020)
If RMB weakens against HKD, USD and EUR	<u>5</u>	<u>6,020</u>

Group

	Exchange rates of HKD, USD and EUR increase/ (decrease) %	Increase/ (decrease) in profit before income tax RMB'000
2012		
If RMB strengthens against HKD, USD and EUR	(5)	(6,512)
If RMB weakens against HKD, USD and EUR	<u>5</u>	<u>6,512</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity of other entities that are publicly traded are included in one of the following equity indexes: Hang Seng Index, Shanghai Stock Exchange ("SSE") Composite Index and Shenzhen Stock Exchange ("SZSE") Component Index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(a) Market risk (Continued)****(ii) Price risk (Continued)**

The market equity index for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2013	High/low 2013	31 December 2012	High/low 2012
Hong Kong Exchange				
— Hang Seng Index	23,306	24,111/19,426	22,657	22,718/18,056
Shanghai Stock Exchange				
— SSE Composite Index	2,116	2,434/1,950	2,269	2,461/1,960
Shenzhen Stock Exchange				
— SZSE Component Index	8,122	9,989/7,495	9,116	10,613/7,711

The table below summarises the impact of increases/decreases of the three equity indexes on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index:

Group

	Impact on post-tax profit		Impact on other components of equity	
	2013	2012	2013	2012
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)
Hang Seng Index	395	379	—	—
SSE Composite Index	318	393	4,256	5,579
SZSE Component Index	—	123	—	404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk *(Continued)*

Post-tax profit for the year would increase/decrease as a result of fair value gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of fair value gains/losses on equity securities classified as available-for-sale.

(iii) Interest rate risk

Interest rate risk is the risk of fluctuation in the fair value of future cash flows of financial instruments from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rates, while fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's loan receivables, customer deposits and debt obligations.

The Group maintains an appropriate fixed and floating interest rate instrument portfolio to manage interest rate risk and makes appropriate arrangements to minimise the exposure mainly by regular review and monitor. The Group does not use derivative financial instruments to hedge its interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(a) Market risk (Continued)****(iii) Interest rate risk (Continued)**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	Profit before income tax
	Increase in basis points	increase/ (decrease)
		<i>RMB'000</i>
Year ended 31 December 2013	+100	(9,776)
Year ended 31 December 2012 (restated)	<u>+100</u>	<u>(13,223)</u>

The table below summarises the effective average interest rates at 31 December for monetary financial instruments:

	Group	
	2013	2012
	Interest rate	Interest rate
	%	%
		(Restated)
Assets		
Loan receivables	3.4–6.7	4.2–7.2
Cash and cash equivalents/pledged bank deposits	0.4–3.0	0.4–3.5
Liabilities		
Customer deposits	0.39–3.3	0.39–3.5
Placements from banks and non-bank financial institutions	4.4–4.99	4.02–4.17
Borrowings	<u>1.88–7.2</u>	<u>2.5–7.91</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(b) Credit risk**

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due. It mainly arises from the trade receivables of the Group and the lending activities of YTO Finance.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the board of directors believes that adequate provisions for uncollectible receivables have been made in the financial statements. In this respect, the board of directors considers that the credit risk is significantly reduced.

The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk in trade receivables.

For the Group's lending activities, YTO Finance has established a set of strict credit granting criteria and approval systems to control and manage credit risk. The loan approval committee is responsible for formulating credit policies and determining the facilities cap, and each credit transaction is subject to collective consideration and approval under conservative and prudent policies. The auditing department of YTO Finance is responsible for the supervision and implementation of the credit approval system and the post-credit inspection system.

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a finance loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amounts of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 44.

The credit risk on bank balances is limited because the bank balances and pledged bank deposits are maintained with state-owned banks or other creditworthy financial institutions in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(b) Credit risk (Continued)**

The credit risk on bill receivables is limited because the bills are guaranteed by banks for payments and the banks are either state-owned banks or other creditworthy financial institutions in the PRC.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, external regulatory or legal requirements (where applicable) - for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the reporting period, the Group held cash and cash equivalents of approximately RMB1,700,530,000 (2012: approximately RMB1,771,296,000 (restated)) (Note 29), and trade and bill receivables of approximately RMB2,321,906,000 (2012: approximately RMB2,335,126,000 (restated)) (Note 25) that are expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds listed equity securities for trading of approximately RMB9,095,000 (2012: approximately RMB10,801,000 (restated)) (Note 27), which could be readily realised to provide a further source of cash should the need arise.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(c) Liquidity risk (Continued)****Group**

2013	Within one year or repayable on demand <i>RMB'000</i>	One to two years <i>RMB'000</i>	Two to three years <i>RMB'000</i>	Three to five years <i>RMB'000</i>	Total undiscounted cash flow <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Borrowings	705,764	95,707	96,006	1,766,009	2,663,486	2,166,399
Trade and bill payables	2,746,608	—	—	—	2,746,608	2,746,608
Other payables and accruals	658,372	—	—	—	658,372	658,372
Customer deposits	569,110	—	—	—	569,110	569,110
Placements from banks and non-bank financial institutions	350,000	—	—	—	350,000	350,000
	<u>5,029,854</u>	<u>95,707</u>	<u>96,006</u>	<u>1,766,009</u>	<u>6,987,576</u>	<u>6,490,489</u>

Group

2012	Within one year or repayable on demand <i>RMB'000</i> (Restated)	One to two years <i>RMB'000</i> (Restated)	Two to three years <i>RMB'000</i> (Restated)	Three to five years <i>RMB'000</i> (Restated)	Total undiscounted cash flow <i>RMB'000</i> (Restated)	Carrying amount <i>RMB'000</i> (Restated)
Borrowings	493,758	445,719	178,085	37,854	1,155,416	1,068,741
Trade and bill payables	2,703,480	—	—	—	2,703,480	2,703,480
Other payables and accruals	907,571	—	—	—	907,571	907,571
Customer deposits	1,046,641	—	—	—	1,046,641	1,046,641
Placements from banks and non-bank financial institutions	360,000	—	—	—	360,000	360,000
	<u>5,511,450</u>	<u>445,719</u>	<u>178,085</u>	<u>37,854</u>	<u>6,173,108</u>	<u>6,086,433</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.1 Financial risk factors (Continued)****(c) Liquidity risk (Continued)****Company**

2013	Within one year or repayable on demand RMB'000	One to two years RMB'000	Two to three years RMB'000	Three to five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Borrowings	495,395	95,707	96,006	1,766,009	2,453,117	2,325,107
Trade and bill payables	1,732,868	—	—	—	1,732,868	1,732,868
Other payables and accruals	123,023	—	—	—	123,023	123,023
	<u>2,351,286</u>	<u>95,707</u>	<u>96,006</u>	<u>1,766,009</u>	<u>4,309,008</u>	<u>4,180,998</u>

Company

2012	Within one year or repayable on demand RMB'000	One to two years RMB'000	Two to three years RMB'000	Three to five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Borrowings	938,537	445,719	178,085	37,854	1,600,195	1,503,541
Trade and bill payables	1,647,550	—	—	—	1,647,550	1,647,550
Other payables and accruals	194,908	—	—	—	194,908	194,908
	<u>2,780,995</u>	<u>445,719</u>	<u>178,085</u>	<u>37,854</u>	<u>3,442,653</u>	<u>3,345,999</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.2 Capital management**

The primary objective of the Group's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes borrowings, trade and bill payables, other payables and accruals, customer deposits and placements from banks and non-bank financial institutions, less cash and cash equivalents and pledged bank balances. Capital includes equity attributable to the equity holders of the Company. The gearing ratios as at the end of the reporting periods are as follows:

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Borrowings	2,166,399	1,068,741
Trade and bill payables	2,746,608	2,703,480
Other payables and accruals	658,372	907,571
Customer deposits	569,110	1,046,641
Placements from banks and non-bank financial institutions	350,000	360,000
Less : Cash and cash equivalents and pledged bank deposits	(1,880,806)	(1,968,497)
Net debt	4,609,683	4,117,936
Total equity (excluding non-controlling interests)	4,473,895	4,417,081
Total equity and net debt	9,083,578	8,535,017
Gearing ratio	51%	48%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

31 December 2013

4. FINANCIAL RISK MANAGEMENT (*CONTINUED*)

4.3 Fair value estimation

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at the end of the reporting periods:

2013	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
Trading securities				
— Retail industry	264	—	—	264
— Multimedia industry	81	—	—	81
— Banking industry	3,352	—	—	3,352
— Investment property industry	3,910	—	—	3,910
— Utilities industry	1,488	—	—	1,488
Debt investment				
— Debentures	2,000	—	—	2,000
— Debt securities with fixed interest rate	348,000	—	—	348,000
Available-for-sale financial assets				
Trading securities				
— Retail industry	—	—	2,200	2,200
— Banking industry	54,487	—	78,130	132,617
— Utilities industry	2,250	—	514	2,764
Total assets	415,832	—	80,844	496,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.3 Fair value estimation (Continued)**

2012	Level 1 RMB'000 (Restated)	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000 (Restated)
Assets				
Financial assets at fair value through profit or loss				
Trading securities				
— Retail industry	438	—	—	438
— Multimedia industry	88	—	—	88
— Banking industry	3,843	—	—	3,843
— Investment property industry	3,776	—	—	3,776
— Pharmaceutical industry	1,487	—	—	1,487
— Utilities industry	1,169	—	—	1,169
Debt investment				
— Debentures	76,000	—	—	76,000
— Debt securities with fixed interest rate	220,000	—	—	220,000
Available-for-sale financial assets				
Trading securities				
— Retail industry	2,267	—	2,380	4,647
— Banking industry	67,201	—	78,130	145,331
— Investment property industry	1,775	—	—	1,775
— Utilities industry	7,183	—	514	7,697
Total assets	<u>385,227</u>	<u>—</u>	<u>81,024</u>	<u>466,251</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The instruments are included in level 1. Instruments included in level 1 comprise primarily Hang Seng Index, SSE Composite Index and SZSE Component Index listed equity investments (classified as financial assets at fair value through profit or loss or available-for-sale financial assets).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.3 Fair value estimation (Continued)**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data (if it is available) and rely as little as possible on entity specific estimates. If all significant inputs required to fair value instruments are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**4.3 Fair value estimation (Continued)**

The movements in level 3 instruments at the year ended 31 December 2013 are as follows:

	Available-for-sale financial assets	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Opening balance	81,024	103,404
Additions	—	980
Disposals	(180)	(23,360)
Closing balance	80,844	81,024
Total (losses)/gains for the year including in profit or loss for assets held at the end of the reporting period	(180)	10,598

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both the current and future periods).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
(CONTINUED)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2013 was approximately RMB 3,098,211,000 (2012: approximately RMB2,558,568,000 (restated)). More details are given in Note 16.

Impairment of trade and bill receivables

The policy for impairment of trade and bill receivables of the Group is based on the evaluation of the collectability and aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each of the end of the reporting period. The carrying amount of trade and bill receivables at 31 December 2013 was approximately RMB2,321,906,000 (2012: approximately RMB2,335,126,000 (restated)). More details are given in Note 25.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
*(CONTINUED)***Provision for obsolete inventories**

Management reviews the condition of the inventories of the Group and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each of the reporting period and makes provision for obsolete items. Management reassesses the estimation at the end of each reporting period. The carrying amount of inventories at 31 December 2013 was approximately RMB1,766,106,000 (2012: approximately RMB1,469,866,000 (restated)). More details are given in Note 24.

Provision for product warranties

Provision for product warranties is estimated based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Factors considered in the estimation include the unit rate charged by repair centers, the number of units of products and components already sold which may require repairs and maintenance, and miscellaneous expenditure which may be incurred. The carrying amount of provision for product warranties at 31 December 2013 was approximately RMB23,515,000 (2012: approximately RMB21,366,000 (restated)). More details are given in Note 35.

Provision for early retirement benefits

The benefits of early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of such early retirees, discounted to their present values as appropriate. The carrying amount of provision for early retirement benefits at 31 December 2013 was approximately RMB63,197,000 (2012: approximately RMB80,705,000 (restated)). More details are given in Note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
*(CONTINUED)***Income tax**

The Group is subject to income taxes in various regions within the PRC. As certain matters relating to the income taxes have not been confirmed by the local tax bureaus, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences crystallise.

Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred income tax assets at 31 December 2013 was approximately RMB76,350,000 (2012: approximately RMB64,585,000 (restated)). More details are given in Note 37.

Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2013, impairment losses of approximately RMB2,123,000 (2012: approximately RMB2,123,000 (restated)) have been recognised for available-for-sale financial assets. The carrying amount of available-for-sale financial assets at 31 December 2013 was approximately RMB137,581,000 (2012: approximately RMB159,450,000 (restated)). More details are given in Note 22.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(CONTINUED)*

Fair value measurements and valuation processes

Certain of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a Strategy and Investment Committee (the "Committee"), which is headed up by the Chairman of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified values to perform the valuation. The Committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chairman reports the Committee's findings to the board of directors of the Company timely to explain the cause of fluctuations in the fair value of the assets and liabilities

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 17 and 22 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

6. SEGMENT INFORMATION

Segment information is presented by way of the Group's business segments. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represent a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group's four business segments are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

- (a) the “agricultural machinery” segment engages in the research and development, manufacture and sale of agricultural machinery, including tractors, relevant parts and components;
- (b) the “power machinery” segment engages in the manufacture and sale of diesel engines, fuel injection pumps and fuel jets;
- (c) the “other machinery” segment engages in the manufacture and sale of forklifts, mining trucks and other machinery; and
- (d) the “financial service” segment engages in the provision of loans, bills discounting and deposit-taking services.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transfers are transacted according to the relevant prevailing market prices.

Although the other machinery segment does not meet the quantitative thresholds required by HKFRS 8 for reportable segments, management has concluded that this segment should be reported, as it is closely monitored by the Group’s management as a potential growth area and is expected to materially contribute to the Group’s revenue in the future.

Segment results are presented as profit before income tax. Other information of each segment is also disclosed, including depreciation and amortisation, corporate income and expenses, finance costs, gain on disposal of subsidiaries, share of profits or losses of associates, and income tax expenses. There are the details reported to management, which, together with other reportable data, serve to provide better information to management, and investors can assess annual segment results from this information.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2013.

	Agricultural machinery RMB'000	Power machinery RMB'000	Other machinery RMB'000	Financial service RMB'000	Unallocated adjustments/ eliminations RMB'000	Total RMB'000
Revenue:						
Sales to external customers	9,383,328	1,463,591	118,145	72,776	—	11,037,840
Intersegment sales (Note)	489,180	766,394	59,072	33,389	(1,348,035)	—
	<u>9,872,508</u>	<u>2,229,985</u>	<u>177,217</u>	<u>106,165</u>	<u>(1,348,035)</u>	<u>11,037,840</u>
Interest, dividend and investment income					53,899	
Gain on bargain purchase					84,460	
Corporate expenses, net					(32,566)	
Finance costs					(80,013)	
Share of profits of associates					904	
Profit/(loss) before income tax	236,850	98,445	(85,185)	57,170	26,684	333,964
Income tax expense						<u>(72,229)</u>
Profit for the year						<u>261,735</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2013. *(Continued)*

	Agricultural machinery RMB'000	Power machinery RMB'000	Other machinery RMB'000	Financial service RMB'000	Unallocated adjustments/ eliminations RMB'000	Total RMB'000
Other segment information:						
Capital expenditure	173,743	283,071	1,126	31	—	457,971
Depreciation of property, plant and equipment	178,594	42,987	3,250	265	—	225,096
Depreciation of investment properties	1,351	—	—	—	—	1,351
Amortisation of prepaid operating leases	21,463	1,926	594	14	—	23,997
Amortisation of intangible assets	1,012	—	—	—	—	1,012
Provision for product warranties	68,923	54,827	731	—	—	124,481
Provision for impairment of trade receivables, net	77,215	562	41,645	—	—	119,422
Provision for/(reversal of) impairment of other receivables, net	366	(65)	15	—	—	316
Provision for impairment of inventories, net	8,695	959	3,239	—	—	12,893
Reversal of impairment of loan receivables, net	—	—	—	(4,331)	—	(4,331)
Provision for impairment of available-for-sale financial assets	—	—	—	10,070	—	10,070
Provision for impairment of goodwill	14,298	—	—	—	—	14,298



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2013. *(Continued)*

	Agricultural machinery RMB'000	Power machinery RMB'000	Other machinery RMB'000	Financial service RMB'000	Unallocated adjustments/ eliminations RMB'000	Total RMB'000
Assets						
Segment assets	7,614,687	2,207,700	421,039	2,977,879	(1,851,295)	11,370,010
Interests in associates						9,185
Unallocated assets						681,455
Total consolidated assets						12,060,650
Liabilities						
Segment liabilities	2,713,571	823,060	276,521	2,564,350	(1,851,295)	4,526,207
Unallocated liabilities						2,306,142
Total consolidated liabilities						6,832,349

Note: Intersegment sales are priced with reference to market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2012.

	Agricultural machinery RMB'000 (Restated)	Power machinery RMB'000	Other machinery RMB'000	Financial operation RMB'000	Unallocated adjustments/ eliminations RMB'000 (Restated)	Total RMB'000 (Restated)
Revenue:						
Sales to external customers	9,811,937	1,224,001	384,976	87,130	—	11,508,044
Intersegment sales (Note)	688,852	780,944	62,173	23,746	(1,555,715)	—
	<u>10,500,789</u>	<u>2,004,945</u>	<u>447,149</u>	<u>110,876</u>	<u>(1,555,715)</u>	<u>11,508,044</u>
Interest, dividend and investment income					61,037	
Corporate expenses, net					(13,181)	
Finance costs					(62,686)	
Share of profits of associates					<u>1,629</u>	
Profit/(loss) before income tax	332,885	89,983	(9,989)	61,809	(13,201)	461,487
Income tax expense						<u>(71,101)</u>
Profit for the year						<u><u>390,386</u></u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2012. *(Continued)*

	Agricultural machinery <i>RMB'000</i> (Restated)	Power machinery <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Financial operation <i>RMB'000</i>	Unallocated adjustments/ eliminations <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
Other segment information:						
Capital expenditure	497,852	38,218	8,204	60	—	544,334
Depreciation of property, plant and equipment	162,356	37,412	2,952	259	—	202,979
Depreciation of investment properties	1,350	—	—	—	—	1,350
Amortisation of prepaid operating leases	14,701	1,759	562	14	—	17,036
Amortisation of intangible assets	8	—	—	—	—	8
Provision for product warranties	51,247	45,315	5,903	—	—	102,465
(Reversal of)/provision for impairment of trade receivables, net	(4,538)	547	1,991	—	—	(2,000)
Provision for/(reversal of) impairment of other receivables, net	6,166	(79)	237	—	—	6,324
Provision for/(reversal of) impairment of inventories, net	11,754	(391)	598	—	—	11,961
Provision for impairment of loan receivables, net	—	—	—	409	—	409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2012. *(Continued)*

	Agricultural machinery <i>RMB'000</i> (Restated)	Power machinery <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Financial operation <i>RMB'000</i>	Unallocated adjustments/ eliminations <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
Assets						
Segment assets	7,323,231	1,599,775	399,856	2,985,108	(1,637,850)	10,670,120
Interests in associates						7,810
Unallocated assets						660,089
Total consolidated assets						<u>11,338,019</u>
Liabilities						
Segment liabilities	3,006,598	952,677	207,429	2,677,355	(1,637,850)	5,206,209
Unallocated liabilities						1,189,241
Total consolidated liabilities						<u>6,395,450</u>

Note: Intersegment sales are priced with reference to market prices.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

Reconciliation for earnings before interest, tax, depreciation and amortisation to profit before income tax is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Earnings before interest, tax, depreciation and amortisation of business segments	558,736	696,061
Depreciation of property, plant and equipment	(225,096)	(202,979)
Depreciation of investment properties	(1,351)	(1,350)
Amortisation of prepaid operating leases	(23,997)	(17,036)
Amortisation of intangible assets	(1,012)	(8)
Corporate expenses, net	(32,566)	(13,181)
Operating profit	274,714	461,507
Interest, dividend and investment income	53,899	61,037
Gain on bargain purchase	84,460	—
Finance costs	(80,013)	(62,686)
Share of profits of associates	904	1,629
Profit before income tax	333,964	461,487

Assets are attributed to the segments based on the operations of each segment and the location of the assets. The Group's equity and other investments (classified as available-for-sale financial assets and financial assets at fair value through profit or loss) are not recognised as segment assets, as they are managed by treasury departments responsible for the Group's finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

6. SEGMENT INFORMATION (CONTINUED)

Segment assets are summarised as below:

	2013 RMB'000	2012 RMB'000 (Restated)
Segment assets as allocated by business segments	11,370,010	10,670,120
Unallocated assets:		
Available-for-sale financial assets	137,581	159,450
Deferred income tax assets	76,350	64,585
Financial assets at fair value through profit or loss	359,095	306,801
Interests in associates	9,185	7,810
Others	108,429	129,253
Total assets as per consolidated statement of financial position	12,060,650	11,338,019

Liabilities are attributed to the segments based on the operations of each segment. The Group's borrowings are not recognised as segment liabilities, as they are managed by treasury departments responsible for the Group's finance.

Segment liabilities are summarised as below:

	2013 RMB'000	2012 RMB'000 (Restated)
Segment liabilities as allocated by business segments	4,526,207	5,206,209
Unallocated liabilities:		
Borrowings	2,166,399	1,068,741
Deferred income tax liabilities	49,917	15,209
Provisions	86,712	102,071
Others	3,114	3,220
Total liabilities as per consolidated statement of financial position	6,832,349	6,395,450

There are no single customers that comprise 10% or more of the total revenue of the Group for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, mainly represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains are as follows:

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Revenue			
Sales of goods		10,965,437	11,421,299
Fee and commission income from financial service	9	1,686	4,689
Interest income from financial service on:			
Loans and advances to customers	9	50,259	66,609
Finance lease obligations	9	266	4,674
Due from central bank, other banks and financial institutions	9	20,192	10,773
		11,037,840	11,508,044
Other income			
Bank interest income	9	11,759	7,394
Dividend income from listed investments	9	2,563	2,510
Dividend income from unlisted investments	9	16,124	30,672
Government grants	36	17,821	34,152
Others		22,518	11,548
		70,785	86,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

7. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Other gains			
Fair value gain on financial assets			
at fair value through profit or loss, net	9	676	3,460
Fair value gain on remeasurement			
of interests in associates	9	—	938
(Loss)/gain on disposal of			
available-for-sale financial assets, net	9	(9,167)	4,236
Gain on disposal of financial assets			
at fair value through profit or loss, net	9	13,611	11,827
Loss on disposal of property,			
plant and equipment, net	9	(2,925)	(9,025)
Write-off of other payables	9	444	1,457
Gain on bargain purchase	41(a)	84,460	—
		87,099	12,893
		157,884	99,169

8. FINANCE COSTS

	2013 RMB'000	2012 RMB'000 (Restated)
Interest on bank and other borrowings wholly repayable		
within 5 years	85,357	83,739
Less: Interest capitalised into construction in progress	(5,344)	(21,053)
	80,013	62,686

Finance costs on funds borrowed generally are capitalised at a rate ranging from 4.4% to 6.9% (2012: from 6.37% to 6.9%) per annum.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

9. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting) the following:

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Amortisation of prepaid operating leases	18	23,997	17,036
Amortisation of intangible assets	19	1,012	8
Auditors' remuneration		2,400	2,317
Bank interest income	7	(11,759)	(7,394)
Cost of inventories sold ***	24	9,318,046	9,846,895
Depreciation of property, plant and equipment	16	225,096	202,979
Depreciation of investment properties	17	1,351	1,350
Dividend income from listed investments	7	(2,563)	(2,510)
Dividend income from unlisted investments	7	(16,124)	(30,672)
Employee benefits expenses (excluding directors' and supervisors' remuneration - Note 10):			
Wages and salaries		946,016	889,216
Pension scheme contributions**		145,802	145,075
Provision for early retirement benefits	35	32,918	15,692
		1,124,736	1,049,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

9. PROFIT BEFORE INCOME TAX (CONTINUED)The Group's profit before income tax is arrived at after charging/(crediting) the following: *(continued)*

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Fair value gain on financial assets at fair value through profit or loss, net	7	(676)	(3,460)
Fair value gain on remeasurement of interests in associates	7	—	(938)
Fee and commission income from financial service	7	(1,686)	(4,689)
Fee and commission expenses from financial service		223	337
Foreign exchange differences, net *		32,732	2,223
Loss/(gain) on disposal of available-for-sale financial assets, net *	7	9,167	(4,236)
Gain on disposal of financial assets at fair value through profit or loss, net *	7	(13,611)	(11,827)
Loss on disposal of property, plant and equipment, net *	7	2,925	9,025
Gain on bargain purchase	41(a)	(84,460)	—
Gross rental income	16	(9,329)	(7,687)
Interest income from financial service on:			
Loans and advances to customers	7	(50,259)	(66,609)
Finance lease obligations	7	(266)	(4,674)
Due from central bank, other banks and financial institutions	7	(20,192)	(10,773)
Interest expenses from financial service		14,395	11,283
Minimum lease payments under operating leases of land and building, and plant and machinery		5,859	16,972
Provision for product warranties	35	124,481	102,465
(Reversal of)/provision for impairment of loan receivables, net *	23	(4,331)	409
Provision for impairment of available-for-sale financial assets *		10,070	—
Provision for impairment of goodwill *	41(a)	14,298	—
Provision for impairment of inventories, net	24	12,893	11,961
Provision for/(reversal of) impairment of trade receivables, net *	25	119,422	(2,000)
Provision for impairment of other receivables, net *	26	316	6,324
Research and development costs		399,132	392,304
Write-off of other payables	7	(444)	(1,457)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

9. PROFIT BEFORE INCOME TAX (CONTINUED)

- * These expenses are included in the consolidated statement of profit or loss and other comprehensive income under "other operating expenses".
- ** At 31 December 2013 and 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.
- *** Depreciation, direct labour costs and manufacturing overhead expenses were included.

10. REMUNERATION OF DIRECTORS AND SUPERVISORS

The directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2013 RMB'000	2012 RMB'000
Fees	<u>254</u>	<u>264</u>
Other emoluments:		
Salaries, allowances and benefits in kind	1,410	1,246
Performance related bonuses	—	—
Pension scheme contributions	<u>282</u>	<u>240</u>
	<u>1,692</u>	<u>1,486</u>
	<u>1,946</u>	<u>1,750</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

10. REMUNERATION OF DIRECTORS AND SUPERVISORS
(CONTINUED)

	Fees	Salaries, allowances and benefits	Performance related bonuses	Pension scheme contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2013					
Executive and non-executive directors:					
Mr. Qu Dawei (a)	—	—	—	—	—
Ms. Dong Jianhong (c)	—	—	—	—	—
Mr. Zhao Yanshui	—	—	—	—	—
Mr. Su Weike (a)	—	—	—	—	—
Mr. Yan Linjiao	—	—	—	—	—
Mr. Liu Jiguo	—	—	—	—	—
Mr. Guo Zhiqiang	—	—	—	—	—
Mr. Wu Yong	—	721	—	144	865
Mr. Wang Erlong (b)	—	—	—	—	—
	<u>—</u>	<u>721</u>	<u>—</u>	<u>144</u>	<u>865</u>
Independent non-executive directors:					
Mr. Hong Xianguo	66	—	—	—	66
Mr. Zhang Qiusheng	60	—	—	—	60
Mr. Xing Min	66	—	—	—	66
Mr. Wu Tak Lung	62	—	—	—	62
	<u>254</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>254</u>
Supervisors:					
Mr. Wang Yong	—	54	—	11	65
Mr. Huang Ping	—	54	—	11	65
Mr. Wang Jianjun	—	364	—	73	437
Mr. Li Pingan	—	—	—	—	—
Mr. Xu Shidong	—	—	—	—	—
Mr. Xu Weilin	—	217	—	43	260
	<u>—</u>	<u>689</u>	<u>—</u>	<u>138</u>	<u>827</u>
	<u>254</u>	<u>1,410</u>	<u>—</u>	<u>282</u>	<u>1,946</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

10. REMUNERATION OF DIRECTORS AND SUPERVISORS
(CONTINUED)

- (a) Resigned on 10 January 2014
- (b) Appointed on 30 December 2013
- (c) Resigned on 5 November 2013

In 2013, there were ten arrangements under which eight directors and two supervisors waived or agreed to waive any remuneration during the year.

	Fees <i>RMB'000</i>	Salaries, allowances and benefits <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2012					
Executive and non-executive directors:					
Mr. Liu Yongle (b)	—	—	—	—	—
Mr. Qu Dawei	—	—	—	—	—
Mr. Li Youji (a)	—	—	—	—	—
Ms. Dong Jianhong	—	—	—	—	—
Mr. Zhao Yanshui	—	—	—	—	—
Mr. Su Weike	—	—	—	—	—
Mr. Yan Linjiao	—	—	—	—	—
Mr. Liu Jiguo	—	457	—	91	548
Mr. Guo Zhiqiang (c)	—	—	—	—	—
Mr. Wu Yong (c)	—	167	—	33	200
	—	624	—	124	748
Independent non-executive directors:					
Mr. Hong Xianguo	66	—	—	—	66
Mr. Chan Sau Shan, Gary (b)	62	—	—	—	62
Mr. Luo Xiwen (b)	64	—	—	—	64
Mr. Zhang Qiusheng	68	—	—	—	68
Mr. Xing Min (c)	2	—	—	—	2
Mr. Wu Tak Lung (c)	2	—	—	—	2
	264	—	—	—	264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

10. REMUNERATION OF DIRECTORS AND SUPERVISORS
(CONTINUED)

	Fees	Salaries, allowances and benefits	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors:					
Ms. Yi Liwen (b)	—	—	—	—	—
Mr. Wang Yong	—	37	—	7	44
Mr. Huang Ping	—	40	—	8	48
Mr. Shao Jianxin (b)	—	154	—	22	176
Mr. Zheng Luyu (b)	—	—	—	—	—
Mr. Wang Jianjun	—	224	—	45	269
Mr. Li Pingan (c)	—	—	—	—	—
Mr. Xu Shidong (c)	—	—	—	—	—
Mr. Xu Weilin (c)	—	167	—	34	201
	—	622	—	116	738
	<u>264</u>	<u>1,246</u>	<u>—</u>	<u>240</u>	<u>1,750</u>

(a) Resigned on 29 January 2012

(b) Resigned on 19 December 2012

(c) Appointed on 20 December 2012

In 2012, there were seven arrangements under which five directors and two supervisors waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

11. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include one (2012: one) director whose emoluments is reflected in the analysis presented in Note 10. The emoluments payable to the remaining four (2012: four) individuals during the year are as follows:

	2013 RMB'000	2012 <i>RMB'000</i>
Salaries, allowances and benefits in kind	2,995	1,694
Performance related bonuses	—	—
Pension scheme contributions	599	338
	3,594	2,032

One of the highest paid employees (2012: One) for the year is a director of the Company, details of whose remuneration are set out in Note 10 above.

The emoluments of the remaining four (2012: four) individuals with the highest emoluments are within the following bands:

In Hong Kong dollars ("HKD")	2013 Number of individuals	2012 Number of individuals
HKD NIL to HKD1,000,000	3	3
HKD1,000,001 to HKD1,500,000	—	1
HKD1,500,001 to HKD2,000,000	1	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

12. INCOME TAX EXPENSE

	2013	2012
	RMB'000	RMB'000
		(Restated)
Current - PRC corporate income tax		
Charge for the year	87,437	88,695
(Over)/under provision in prior years	(2,826)	559
Deferred income tax (Note 37)	(12,382)	(18,153)
Total income tax charge for the year	72,229	71,101

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25% (2012: 15% to 25%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2013 and 2012.

Profits tax of the subsidiaries operating outside the PRC and Hong Kong is subject to the rates applicable within the jurisdiction in which it operates. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

12. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit before income tax using the statutory rate for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2013		2012	
	RMB'000	%	RMB'000	%
			(Restated)	
Profit before income tax	<u>333,964</u>		<u>461,487</u>	
Tax at the PRC statutory tax rate of 25% (2012: 25%)	83,491	25	115,372	25
Reduction of income tax under preferential tax treatment	(52,168)	(16)	(48,569)	(10)
Adjustments in respect of current tax of previous periods	(2,826)	(1)	559	—
Profits attributable to associates	(154)	—	(257)	—
Income not subject to tax	(17,857)	(6)	(35,518)	(7)
Expenses not tax deductible	39,946	12	15,488	2
Tax losses utilised	(3,517)	(1)	(8,867)	(2)
Unrecognised tax losses	<u>25,314</u>	<u>8</u>	<u>32,893</u>	<u>7</u>
Income tax expense at the Group's effective rate	<u>72,229</u>	<u>21</u>	<u>71,101</u>	<u>15</u>

The tax charge/(credit) relating to components of other comprehensive income is as follows:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Current tax	—	—
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Fair value changes of available-for-sale financial assets (Note 37)	<u>(2,368)</u>	<u>314</u>
Total income tax (credited)/charged to other comprehensive income	<u>(2,368)</u>	<u>314</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2013 which has been dealt with in the financial statements of the Company is approximately RMB238,693,000 (2012: approximately RMB431,952,000) (Note 39(b)).

14. DIVIDENDS

The dividend paid in 2013 was RMB99,590,000 (RMB0.10 per share). No dividend was paid in 2012.

	2013	2012
	RMB'000	RMB'000
Final dividend, proposed, of RMB6 cents (2012: RMB10 cents) per ordinary share (Note 39(b))	59,754	99,590

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting standards; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed (i.e. Hong Kong Financial Reporting Standards).

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB221,950,000 (2012: approximately RMB324,964,000 (restated)) and the weighted average number of 995,900,000 (2012: 895,900,000) shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2013 and 2012 are the same as the basic earnings per share as there were no potential dilutive shares outstanding during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

16. PROPERTY, PLANT AND EQUIPMENT**Group**

	Freehold land, outside the PRC <i>RMB'000</i> (Restated)	Buildings <i>RMB'000</i> (Restated)	Plant, machinery and equipment <i>RMB'000</i> (Restated)	Transportation vehicles and equipment <i>RMB'000</i> (Restated)	Construction in progress <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
At 1 January 2012, as restated						
Cost	8,971	1,155,853	2,287,017	62,503	744,833	4,259,177
Accumulated depreciation and impairment	—	(565,177)	(1,372,180)	(22,652)	(8,379)	(1,968,388)
Net book amount	<u>8,971</u>	<u>590,676</u>	<u>914,837</u>	<u>39,851</u>	<u>736,454</u>	<u>2,290,789</u>
Year ended 31 December 2012						
Opening net book amount						
— As previously reported	8,971	587,999	819,458	33,653	718,321	2,168,402
— Business combination under common control	—	2,677	95,379	6,198	18,133	122,387
— As restated	8,971	590,676	914,837	39,851	736,454	2,290,789
Additions	—	62,704	76,365	19,179	307,959	466,207
Transfers in/(out)	—	94,882	356,903	5,793	(457,578)	—
Transferred to prepaid operating leases (Note 18)	—	—	—	—	(2,755)	(2,755)
Disposals	—	(2,847)	(11,943)	(1,034)	—	(15,824)
Acquisition of a subsidiary (Note 41)	—	—	22,637	36	—	22,673
Depreciation charged for the year (Note 9)	—	(31,532)	(163,235)	(8,212)	—	(202,979)
Exchange realignment	172	7	272	6	—	457
Closing net book amount	<u>9,143</u>	<u>713,890</u>	<u>1,195,836</u>	<u>55,619</u>	<u>584,080</u>	<u>2,558,568</u>
At 31 December 2012						
Cost	9,143	1,305,455	2,669,260	100,618	592,459	4,676,935
Accumulated depreciation and impairment	—	(591,565)	(1,473,424)	(44,999)	(8,379)	(2,118,367)
Net book amount	<u>9,143</u>	<u>713,890</u>	<u>1,195,836</u>	<u>55,619</u>	<u>584,080</u>	<u>2,558,568</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Group**

	Freehold land, outside the PRC <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation vehicles and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013, as restated						
Cost	9,143	1,305,455	2,669,260	100,618	592,459	4,676,935
Accumulated depreciation and impairment	—	(591,565)	(1,473,424)	(44,999)	(8,379)	(2,118,367)
Net book amount	<u>9,143</u>	<u>713,890</u>	<u>1,195,836</u>	<u>55,619</u>	<u>584,080</u>	<u>2,558,568</u>
Year ended 31 December 2013						
Opening net book amount						
— As previously reported	9,143	705,641	1,109,607	52,593	537,138	2,414,122
— Business combination under common control	—	8,249	86,229	3,026	46,942	144,446
— As restated	9,143	713,890	1,195,836	55,619	584,080	2,558,568
Additions	—	2,821	42,536	3,152	394,440	442,949
Transfers in/(out)	—	257,250	280,753	16,119	(554,122)	—
Disposals	—	(3,234)	(8,423)	(1,734)	—	(13,391)
Acquisition of subsidiaries (Note 41)	—	262,173	72,098	1,116	—	335,387
Depreciation charged for the year (Note 9)	—	(25,250)	(186,732)	(13,114)	—	(225,096)
Exchange realignment	(446)	12	216	12	—	(206)
Closing net book amount	<u>8,697</u>	<u>1,207,662</u>	<u>1,396,284</u>	<u>61,170</u>	<u>424,398</u>	<u>3,098,211</u>
At 31 December 2013						
Cost	8,697	1,815,122	3,008,971	114,284	432,932	5,380,006
Accumulated depreciation and impairment	—	(607,460)	(1,612,687)	(53,114)	(8,534)	(2,281,795)
Net book amount	<u>8,697</u>	<u>1,207,662</u>	<u>1,396,284</u>	<u>61,170</u>	<u>424,398</u>	<u>3,098,211</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Company**

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012					
Cost	749,506	1,228,981	16,128	482,954	2,477,569
Accumulated depreciation and impairment	(412,977)	(737,503)	(6,541)	(8,379)	(1,165,400)
Net book amount	<u>336,529</u>	<u>491,478</u>	<u>9,587</u>	<u>474,575</u>	<u>1,312,169</u>
Year ended 31 December 2012					
Opening net book amount	336,529	491,478	9,587	474,575	1,312,169
Additions	6,072	2,443	18,099	146,059	172,673
Transfers in/(out)	92,569	239,942	4,805	(337,316)	—
Transferred to prepaid operating leases (Note 18)	—	—	—	(2,755)	(2,755)
Disposals	(1,646)	(10,471)	(333)	—	(12,450)
Depreciation charged for the year	(20,088)	(69,252)	(4,560)	—	(93,900)
Closing net book amount	<u>413,436</u>	<u>654,140</u>	<u>27,598</u>	<u>280,563</u>	<u>1,375,737</u>
At 31 December 2012					
Cost	836,851	1,428,052	56,246	288,942	2,610,091
Accumulated depreciation and impairment	(423,415)	(773,912)	(28,648)	(8,379)	(1,234,354)
Net book amount	<u>413,436</u>	<u>654,140</u>	<u>27,598</u>	<u>280,563</u>	<u>1,375,737</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Company**

	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Transportation vehicles and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013					
Cost	836,851	1,428,052	56,246	288,942	2,610,091
Accumulated depreciation and impairment	(423,415)	(773,912)	(28,648)	(8,379)	(1,234,354)
Net book amount	<u>413,436</u>	<u>654,140</u>	<u>27,598</u>	<u>280,563</u>	<u>1,375,737</u>
Year ended 31 December 2013					
Opening net book amount	413,436	654,140	27,598	280,563	1,375,737
Additions	898	1,120	110	198,734	200,862
Transfers in/(out)	107,530	134,165	13,542	(255,237)	—
Disposals	(82,061)	(70,143)	(6,447)	—	(158,651)
Depreciation charged for the year	(20,493)	(77,698)	(5,454)	—	(103,645)
Closing net book amount	<u>419,310</u>	<u>641,584</u>	<u>29,349</u>	<u>224,060</u>	<u>1,314,303</u>
At 31 December 2013					
Cost	863,319	1,493,029	63,516	232,439	2,652,303
Accumulated depreciation and impairment	(444,009)	(851,445)	(34,167)	(8,379)	(1,338,000)
Net book amount	<u>419,310</u>	<u>641,584</u>	<u>29,349</u>	<u>224,060</u>	<u>1,314,303</u>

Certain of the Group's buildings are leased to the Holding Company and third parties under operating leases, the lease rental amounting to approximately RMB9,329,000 (2012: approximately RMB7,687,000) is included in profit or loss (Note 9).

The majority of the Group's and Company's buildings are located in the PRC under medium term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

17. INVESTMENT PROPERTIES**Group**

	2013 RMB'000	2012 RMB'000 (Restated)
Net book amount at 1 January		
— As previously reported	32,511	33,861
— Business combination under common control	<u>—</u>	<u>—</u>
— As restated	32,511	33,861
Depreciation charged for the year (Note 9)	(1,351)	(1,350)
Net book amount at 31 December	<u>31,160</u>	<u>32,511</u>
As 31 December		
Cost	38,141	35,572
Accumulated depreciation and impairment	<u>(6,981)</u>	<u>(3,061)</u>
Net book amount	<u>31,160</u>	<u>32,511</u>

The carrying value amount of investment properties shown above comprises leasehold interests in land situated in the PRC under medium term leases.

The cost of investment properties is depreciated over their estimated useful lives at estimated rates between 3.92% to 7.66% (2012: 3.72% to 7.66%) per annum.

The fair value of the Group's investment properties as at 31 December 2013 was approximately RMB31,160,000 (2012: approximately RMB32,511,000). The fair value has been arrived on the basis of a valuation carried out at that date by independent local valuers, who are not connected with the Group.

The property rental income earned by the Group during the year from its investment properties, all of which are leased out under operating leases, amounted to approximately RMB1,697,000 (2012: approximately RMB1,846,000). Direct operating expenses arising on the investment properties amounted to approximately RMB798,000 (2012: approximately RMB798,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

18. PREPAID OPERATING LEASES

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Net book amount at 1 January	757,715	695,853	441,205	451,000
— As previously reported				
— Business combination under common control	—	—	—	—
	—	—	—	—
— As restated	757,715	695,853	441,205	451,000
Acquisition of subsidiaries (Note 41)	116,772	—	—	—
Additions	12,804	76,143	—	—
Disposals	—	—	(22,758)	—
Transfer from property, plant and equipment (Note 16)	—	2,755	—	2,755
Amortisation charged for the year (Note 9)	(23,997)	(17,036)	(11,501)	(12,550)
Net book amount at 31 December	863,294	757,715	406,946	441,205
As 31 December				
Cost	920,506	790,930	436,007	460,848
Accumulated amortisation	(57,212)	(33,215)	(29,061)	(19,643)
Net book amount	863,294	757,715	406,946	441,205

The prepaid operating leases comprise leasehold land in the PRC under medium term leases.

At 31 December 2013, the Group's land use rights with carrying amount of approximately RMB153,936,000 (2012: Nil) were pledged to secure bank borrowings granted to the Group (Note 34(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

19. INTANGIBLE ASSETS

	Group			Company
	Trademark	License	Others	Trademark
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Restated)	(Restated)	(Restated)	(Restated)
At 1 January 2012				
Cost	57,542	4,081	19	57,542
Accumulated amortisation	—	—	(11)	—
Net book amount	<u>57,542</u>	<u>4,081</u>	<u>8</u>	<u>57,542</u>
Year ended 31 December 2012				
Opening net book amount				
— As previously reported	57,542	4,081	8	57,542
— Business combination under common control	—	—	—	—
— As restated	57,542	4,081	8	57,542
Additions	1,984	—	—	1,984
Exchange realignment	—	78	—	—
Amortisation charged for the year (Note 9)	—	—	(8)	—
Net book amount at 31 December 2012	<u>59,526</u>	<u>4,159</u>	<u>—</u>	<u>59,526</u>
At 31 December 2012				
Cost	59,526	4,159	19	59,526
Accumulated amortisation	—	—	(19)	—
Net book amount	<u>59,526</u>	<u>4,159</u>	<u>—</u>	<u>59,526</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

19. INTANGIBLE ASSETS (CONTINUED)

	Group			Company	
	Trademark	License	Others	Total	Trademark
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013					
Cost	59,526	4,159	19	63,704	59,526
Accumulated amortisation	—	—	(19)	(19)	—
Net book amount	<u>59,526</u>	<u>4,159</u>	<u>—</u>	<u>63,685</u>	<u>59,526</u>
Year ended 31 December 2013					
Opening net book amount					
— As previously reported	59,526	4,159	—	63,685	59,526
— Business combination under common control	—	—	—	—	—
— As restated	59,526	4,159	—	63,685	59,526
Additions	—	2,218	—	2,218	—
Exchange realignment	—	71	—	71	—
Amortisation charged for the year (Note 9)	—	(1,012)	—	(1,012)	—
Net book amount at 31 December 2013	<u>59,526</u>	<u>5,436</u>	<u>—</u>	<u>64,962</u>	<u>59,526</u>
At 31 December 2013					
Cost	59,526	6,448	19	65,993	59,526
Accumulated amortisation	—	(1,012)	(19)	(1,031)	—
Net book amount	<u>59,526</u>	<u>5,436</u>	<u>—</u>	<u>64,962</u>	<u>59,526</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

19. INTANGIBLE ASSETS (CONTINUED)**Impairment test for intangible asset with indefinite useful life**

The useful life of the trademark and license is assessed to be indefinite. The factors considered in the assessment of the useful life of the trademark and license include analysis of the market and competitive trends, product life cycles and management's long-term strategic development. Overall, these factors provided evidence that the trademark and license is expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amount of the trademark and license is estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the trademark and license is allocated. This method considers cash flows of the subsidiary (cash-generating unit) for the five years ending 31 December 2018 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 5% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of approximately 4.3%.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2013	2012
	RMB'000	RMB'000
Unlisted investments, at cost	3,073,647	2,138,422
Provision for impairment #	(44,750)	(44,750)
	3,028,897	2,093,672

An impairment has been recognised for certain unlisted investments with a carrying amount of approximately RMB44,750,000 (before deducting the impairment loss) (2012: approximately RMB44,750,000) because these unlisted investments have recorded operating losses.

There was no movement in impairment of interests in subsidiaries for the years ended 31 December 2013 and 2012.

The loans to subsidiaries of approximately RMB107,000,000 (2012: approximately RMB107,000,000) are granted in the form of designated deposits through a subsidiary, which is a financial institution, are unsecured, bear interest at rates ranging from 7.20% to 7.28% (2012: from 6.07% to 7.1%) per annum, and are repayable within one year (2012: one year).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Deposits placed with a subsidiary are deposits of approximately RMB823,806,000 (2012: approximately RMB548,484,000) placed by the Company in the subsidiary which is a financial institution.

Other balances with subsidiaries are included in Notes 25, 26, 30 and 31.

The carrying amounts of balances with subsidiaries approximate to their fair values.

As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	
Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司	Bermuda	USD12,000	90.1	90.1	—	—	Investment holding
Yituo (Luoyang) Harvester Machinery Co., Ltd.*# 一拖(洛陽)收穫機械有限公司	The PRC	RMB49,295,000	—	—	93.9	93.9	Inactive
Luoyang Changhong High Technology Trading Company Limited*# 洛陽長宏工貿有限公司	The PRC	RMB3,000,000	100	100	—	—	Trading of tractors



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") * # – (Note (i)) 一拖(洛陽)神通工程機械有限公司	The PRC	RMB53,000,000	100	100	—	—	Manufacture and sale of forklifts and mining trucks
YTO Group Finance Company Limited ("YTO Finance") * # – (Note (ii), (iii)) 中國一拖集團財務有限責任公司	The PRC	RMB500,000,000	88.6	88.6	4.2	4.0	Provision of financial services
Luoyang Changxing Agriculture Machinery Company Limited * # 洛陽長興農業機械有限公司	The PRC	RMB3,000,000	70	70	30	30	Trading of tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. * # 一拖(洛陽)中成機械有限公司	The PRC	RMB10,000,000	73	73	—	—	Manufacture and sale of agricultural machinery and tools
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") * + – (Note (iii)) 一拖(洛陽)柴油機有限公司	The PRC	USD16,000,000	67.9	58.8	17.6	22.5	Manufacture and sale of diesel engines
Yituo (Luoyang) Fuel Injection Pump Co., Ltd. ("YLFIP") * # – (Note (iv)) 一拖(洛陽)燃油噴射有限公司	The PRC	RMB161,915,000	66.6	42.5	19.5	29.7	Manufacture and sale of fuel injection pumps and fuel jets
Yituo (Luoyang) Power Machinery Co., Ltd. ("YLPM") * # – (Note (v)) 一拖(洛陽)動力機械有限公司	The PRC	RMB38,000,000	—	42	85.5	40.7	Manufacture and sale of diesel engines
Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") * # 一拖(洛陽)搬運機械有限公司	The PRC	RMB55,880,000	93.4	93.4	—	—	Manufacture and sale of forklifts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	
YTO (Xinjiang) Dongfanghong Machining Co., Ltd. * # 一拖(新疆)東方紅裝備機械有限公司	The PRC	RMB100,000,000	100	100	—	—	Manufacture and sale of tractors, parts and components
China-Africa Machinery Corp. ("CAMACO") + 中非重工投資有限公司	The PRC	RMB250,000,000	55	55	—	—	Investment management, agency for importing and exporting goods and technology
Cadfund Machinery (Pty) Ltd	South Africa	ZAR0.1	—	—	55	55	Sale of agricultural and construction machinery
Luoyang Tractors Research Institute Co., Ltd. ("LTRI") * # 洛陽拖拉機研究所有限公司	The PRC	RMB445,000,000	51	51	—	—	Technology development and consultancy services for agricultural and construction machinery
Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd. # 洛陽西苑車輛動力檢驗所有限公司	The PRC	RMB1,000,000	—	—	51	51	Provision of inspection services for tractors
Luoyang Xinyan Material Mechanical Engineering Co., Ltd. # 洛陽鑫研機械材料工程有限公司	The PRC	RMB1,000,000	—	—	51	51	Manufacture and sale of dashboard, Hydraulic component and electronic parts



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	
Shanghai Dragon (Group) Co., Ltd. ("Shanghai Dragon") * # 上海強農(集團)股份有限公司	The PRC	RMB81,000,000	93.8	93.8	—	—	Trading of agricultural machineries, and properties investment
Shanghai Qianong Agricultural Machinery Product and Parts Co., Ltd. * # 上海幹農農機產品配售有限公司	The PRC	RMB1,200,000	—	—	93.8	93.8	Provision of leasing of agricultural machineries services
Shanghai Qiangnong (Group) Agricultural Machinery Co., Ltd. * # 上海強農集團農業機械有限公司	The PRC	RMB4,500,000	—	—	93.8	93.8	Manufacture and sale of agricultural machineries, motor vehicle accessories and electronic products
YTO France SAS	France	EUR35,000,000	100	100	—	—	Manufacture and sale of powershift transmission system
YTO (Luoyang) Forklift Co., Limited ("YTO Forklift") * # 一拖(洛陽)叉車有限公司	The PRC	RMB28,600,000	100	100	—	—	Manufacture and sale of forklifts
YTO International Economic and Trading Co., Ltd. ("YTO International") *# 一拖國際經濟貿易有限公司	The PRC	RMB66,000,000	100	100	—	—	Sale of agricultural machinery and construction machinery
YITWO Agro-Industrial 一拖科特迪瓦農機裝配有限公司	Côte d'Ivoire	XOF270,660,000	—	—	51.5	51.5	Sale of agricultural machinery

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct 2013	2012	Indirect 2013	2012	
Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") * # 洛陽拖汽工程車輛科技有限公司	The PRC	RMB4,000,000	—	—	51	51	Provision of technology transfer and consultancy services
YTO Heilongjiang Agricultural Machinery Co., Ltd. ("YTO Heilongjiang") * # 一拖黑龍江農業裝備有限公司	The PRC	RMB100,000,000	100	100	—	—	Manufacture and sale of tractors, parts and components
YTO Shunxing (Luoyang) Spare Parts Co., Ltd. ("YTO Shunxing") * # - (Note (vi)) 一拖順興(洛陽)零部件有限責任公司	The PRC	RMB30,000,000	100	100	—	—	Manufacture and sale of forged steel crankshafts
YTO (Luoyang) Flag Auto-Body Co., Ltd. ("YTO Flag") * #— (Note (viii)) 一拖(洛陽)福萊格車身有限公司	The PRC	RMB50,000,000	100	100	—	—	Manufacture and sale of covering parts, driving cabins, auto parts and other components
YTO (Luoyang) Drive Axle Co., Ltd. ("YTO Axle") * #— (Note (viii)) 一拖(洛陽)車橋有限公司	The PRC	RMB50,000,000	100	100	—	—	Manufacture and sale of off road machinery drive axles
YTO (Luoyang) Foundry Co., Ltd. ("YTO Foundry") * #— (Note (ix)) 一拖(洛陽)鑄造有限公司	The PRC	RMB168,830,000	100	100	—	—	Manufacture and sale of casting blank and semi-finished products
Changtuo Agricultural Machinery Equipment Group Co., Ltd. ("Changtuo Company") * #— (Note (x)) 長拖農業機械裝備集團有限公司	The PRC	RMB282,000,000	33.3	—	—	—	Research and development, manufacture and sale of tractors, agricultural machineries and accessories



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)As at 31 December 2013 and 2012, particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	
Qilida Gear Wheel Company ("Qilida Company") * # – (Note (xi)) 奇利達齒輪公司	The PRC	RMB5,000,000	—	—	33.3	—	Manufacture and sale of gearboxes
Yituo (Jiangyan) Power Co., Ltd. ("YJPL")* # – (Note (iii)) 一拖(姜堰)動力機械有限公司	The PRC	RMB200,000,000	38	38	34.2	32.5	Manufacture and sale of diesel engines and accessories
Yang Dong Co., Ltd. ("Yang Dong") * # – (Note (xi)) 揚動股份有限公司	The PRC	RMB178,735,000	—	—	72.2	—	Inactive

Notes :

- (i) On 30 May 2012, the Company acquired an additional 24% equity interest in YLST from the Holding Company, and since then YLST has become a wholly-owned subsidiary of the Company (see Note 40(b)(i)).
- (ii) On 30 June 2012, the Company acquired an additional 0.8% equity interest in YTO Finance from the independent third parties, resulting in an increase in the percentage of equity attributable to the Group from 91.8% to 92.6% (see Note 40(b)(ii)).
- (iii) On 31 August 2013, the Group made additional capital contribution to YLDC and increase the percentage of equity attributable to the Group from 81.3% to 85.5%. Since YLDC owned direct equity interest in YTO Finance and YJPL, the percentage of equity attributable to the Group in YTO Finance and YJPL increased from 92.6% to 92.8% and 70.5% to 72.2%, respectively (see Note 40(a)(iii)).
- (iv) On 7 June 2013, the Company acquired an additional 2.25% equity interest in YLFIP from an independent third party, and on 14 June 2013, the Company made additional contributions of RMB105,000,000 to YLFIP resulting in an increase in the percentage of equity attributable to the Group from 72.2% to 86.1% (see Note 40(a)(i)&(ii)).
- (v) On 31 August 2013, a non-wholly owned subsidiary of the Company, YLDC, acquired an additional 8% equity interest in YLPM from the independent third parties. Upon the completion of this further acquisition, the Company transferred its shareholding in YLPM to YLDC, then, the percentage of equity attributable to the Group increased from 82.7% to 85.5% (see Note 40(a)(iv)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes : (Continued)

- (vi) On 31 May 2012, the Company acquired a further 60% equity interest in YTO Shunxing from the independent third parties, and since then YTO Shunxing has become a wholly-owned subsidiary of the Company (see Note 41(b)).
- (vii) On 31 December 2012, the Company acquired 100% equity interest in YTO Flag from the Holding Company (see Note 42(b)).
- (viii) On 31 December 2012, the Company acquired 100% equity interest in YTO Axle from the Holding Company. YTO Axle was incorporated by the Holding Company during 2012 (see Note 42(b)).
- (ix) On 22 January 2013, the Company acquired 100% equity interest in YTO Foundry from the Holding Company (see Note 42(a)).
- (x) On 8 February 2013, each of the Company and the Parent acquired one-third of the equity interest in Changtuo Company and its subsidiary, Qilida Company, through capital injection. Upon the completion of the capital injections, the Parent has assigned its voting right in the directors' and shareholders' meetings of Changtuo Company to the Company for strategic reasons. Therefore, the Company can exercise control over the financial and operating policies of Changtuo Company, which became a subsidiary of the Company (see Note 41(a)(i)).
- (xi) On 3 December 2013, the Group acquired 72.2% equity interest in Yang Dong (see Note 42(a)(ii)).
- * The names of the PRC subsidiaries in English are direct translations of their respective registered names in Chinese.
- # Limited liability companies established in the PRC.
- + Sino-foreign joint ventures established in the PRC.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)**Details of non-wholly-owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly-owned subsidiaries of the Group that has material non-controlling interests:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		Total comprehensive income/ (expense) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	2013	2012	2013	2012
				RMB'000	RMB'000	RMB'000	RMB'000
YLDC	The PRC	14.5%	18.7%	13,596	21,228	109,962	80,587
LTRI	The PRC	49.0%	49.0%	6,147	12,032	295,760	238,950
Changtuo Company	The PRC	66.7%	—	(20,504)	—	119,668	—
Individually immaterial subsidiaries with non-controlling interests						229,016	205,951
Total						754,406	525,488

Summarised financial information in respect of each of the Group's subsidiaries that has non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	YLDC		LTRI		Changtuo Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Current assets	927,922	579,793	261,673	174,472	37,545	26,425
Non-current assets	602,162	631,040	416,494	405,965	194,453	199,878
Current liabilities	(771,725)	(776,834)	(41,823)	(82,512)	(52,586)	(106,154)
Non-current liabilities	—	(3,054)	(32,751)	(10,879)	—	—
Equity attributable to owners of the Company	648,397	350,358	307,833	248,093	59,744	—
Non-controlling interests	109,962	80,587	295,760	238,950	119,668	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

	YLDC		LTRI		Changtuo	Company
	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,752,353	1,672,040	201,206	190,135	21,735	161,443
Expenses	(1,658,585)	(1,558,518)	(188,661)	(165,580)	(52,477)	(196,837)
Profit/(loss) for the year	93,768	113,522	12,545	24,555	(30,742)	(35,394)
Profit attributable to owners of the Company	80,172	92,294	6,398	12,523	(10,237)	—
Profit attributable to non-controlling interests	13,596	21,228	6,147	12,032	(20,505)	—
Profit/(loss) for the year	93,768	113,522	12,545	24,555	(30,742)	—
Other comprehensive income attributable to owners of the Company	—	—	—	—	—	—
Other comprehensive income attributable to non-controlling interests	—	—	—	—	—	—
Other comprehensive income for the year	—	—	—	—	—	—
Total comprehensive income attributable to owners of the Company	80,172	92,294	6,398	12,523	(10,237)	—
Total comprehensive income attributable to non-controlling interests	13,596	21,228	6,147	12,032	(20,505)	—
Total comprehensive income	93,768	113,522	12,545	24,555	(30,742)	—
Dividend paid to the non-controlling interests	24,560	25,734	—	8,053	—	—
Net cash flows from operating activities	122,982	103,775	(3,369)	(16,812)	(50,696)	(1,402)
Net cash flows from investing activities	(40,451)	(44,075)	(9,759)	(58,564)	(4,895)	(1,034)
Net cash flows from financing activities	(27,632)	(92,008)	104,000	112,555	69,220	(5,670)
Net cash inflow/(outflow)	54,899	(32,308)	90,872	37,179	13,629	(8,106)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Unlisted shares, at cost	—	—	60,192	59,000
Share of net assets	9,185	7,810	—	—
	9,185	7,810	60,192	59,000
Provision for impairment	—	—	(59,000)	(59,000)
	9,185	7,810	1,192	—

The Group's deposits from associates are disclosed in Note 32.

As at 31 December 2013 and 2012, particulars of the principal associates are as follows:

Name	Place of registration	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Group				Principal activities
			Direct		Indirect		
			2013	2012	2013	2012	

Luoyang First Motors Company Limited * 洛陽福賽特汽車股份有限公司	The PRC	RMB200,000,000	29.5	29.5	—	—	Design, manufacture and sale of vehicles and related accessories
YTO Chuanlong (Si Chuan) Agricultural Equipment Co., Ltd.* (“YTO Chuanlong”)– (Note (i)) 一拖川龍四川農業裝備有限公司	The PRC	RMB30,000,000	20	—	—	—	Manufacture and sale of tractors and machinery
Luoyang I&C Technology Consulting Company Limited (“I&C Technology”) * - (Note (ii)) 洛陽意中技術諮詢有限公司	The PRC	RMB1,000,000	—	—	15.3	15.3	Technology development, and consultancy services
Luoyang Yongwei Machinery Company Limited * 洛陽市永為機械有限公司	The PRC	RMB7,500,000	—	—	48.6	48.6	Manufacture and sale of agricultural machinery accessories

* The names of the PRC associates in English are direct translations of their respective registered names in Chinese.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

31 December 2013

21. INTERESTS IN ASSOCIATES (CONTINUED)

Note:

- (i) On 21 January 2013, the Company and Si Chuan Chuanlong Tractor Manufacturing Company Limited entered into the agreement to set up YTO Chuanlong. Upon the completion of capital injection, the Company owned 20% equity interest in YTO Chuanlong which is regarded as an associate of the Company.
- (ii) Since I&C Technology is an associate of a 51% owned subsidiary of the Group, it is regarded as an associate of the Group.

All the above associates are accounted for using the equity method in the Group's consolidated financial statements.

Summarised financial information in respect of the material associates are set out below. The summarised financial information below represents amount shown in the associate's financial statements prepared in accordance with HKFRSs.

Luoyang Yongwei Machinery Company Limited

	2013	2012
	RMB'000	RMB'000
Current assets	12,673	13,701
Non-current assets	9,023	7,973
Current liabilities	(6,203)	(5,639)
Net assets	15,493	16,035
Revenue	95,704	121,675
Profit and total comprehensive income	2,109	3,528



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

21. INTERESTS IN ASSOCIATES (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of the associates	15,493	16,035
Proportion of the Group's ownership interests in associates	48.6%	48.6%
Carrying amount of the Group's interests in associate	7,530	7,793

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Listed equity investments				
in the PRC, at fair value	56,737	78,426	33,792	43,472
Unlisted equity investments, at cost	82,967	83,147	4,323	4,503
Provision for impairment	(2,123)	(2,123)	(2,123)	(2,123)
	80,844	81,024	2,200	2,380
	137,581	159,450	35,992	45,852

During the year, the gross loss in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to approximately RMB13,343,000 (2012: gross gain of approximately RMB2,871,000).

The fair values of listed equity investments are based on quoted market prices.

As at 31 December 2013 and 2012, all unlisted equity investments were stated at cost less any accumulated impairment losses (if any), because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

31 December 2013

23. LOAN RECEIVABLES**Group**

	2013	2012
	RMB'000	RMB'000
		(Restated)
Analysis by nature:		
Loan borrowings, net	504,180	595,550
Discounted bills, net	221,143	183,464
Finance lease obligations, net	—	14,717
	725,323	793,731

		Gross amount	Provisions	Net
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysis by customer:				
2013				
Loans to the Holding Company	(i)	350,000	8,750	341,250
Loans to related companies	(ii)	60,987	1,477	59,510
Loans to customers	(iii)	327,933	3,370	324,563
		738,920	13,597	725,323
Portion classified as current assets		(723,095)	(13,132)	(709,963)
Non-current portion		15,825	465	15,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

23. LOAN RECEIVABLES (CONTINUED)

	Note	Gross amount RMB'000 (Restated)	Provisions RMB'000 (Restated)	Net RMB'000 (Restated)
Analysis by customer:				
2012				
Loans to the Holding Company	(i)	182,744	4,500	178,244
Loans to related companies	(ii)	327,040	8,025	319,015
Loans to customers	(iii)	301,875	5,403	296,472
		811,659	17,928	793,731
Portion classified as current assets		(764,595)	(16,517)	(748,078)
Non-current portion		47,064	1,411	45,653

Notes:

- (i) The loans to the Holding Company are granted by YTO Finance, and are unsecured, bear interest at rates ranging from 3.43% to 4.67% (2012: from 4.2% to 4.9%) per annum and repayable within one year (2012: one year).
- (ii) The loans to these companies (fellow subsidiaries and associates of the Holding Company) are unsecured, bear interest at rates ranging from 5% to 6.64% (2012: from 4.5% to 6.56%) per annum and repayable within one year (2012: one year).
- (iii) The loans to customers represent the loans granted to certain customers as permitted by the People's Bank of China (the "PBOC").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

23. LOAN RECEIVABLES (CONTINUED)

The total minimum lease payments receivable under finance leases contracts, and their present values are as follows:

	2013		2012	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000 (Restated)	Total minimum lease payments RMB'000 (Restated)
Amount receivable:				
Within three months	—	—	10,022	10,247
Within one year but over three months	—	—	5,634	5,673
	—	—	15,656	15,920
Unearned future income on finance lease	—	—	—	(264)
	—	—	15,656	15,656
Less: Impairment allowance	—		(939)	
Net amount of finance leases	—		14,717	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

23. LOAN RECEIVABLES (CONTINUED)

The movements in impairment during the year are as follows:

Group

	2013 RMB'000	2012 RMB'000 (Restated)
At 1 January		
— As previously reported	19,928	17,869
— Business combination under common control	(2,000)	(350)
— As restated	17,928	17,519
Provision for impairment (credit)/charged to the statement of profit or loss, net (Note 9)	(4,331)	409
At 31 December	13,597	17,928

The maturity profile of the Group's loan receivables at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates, as follows:

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Repayable:		
Within three months	158,834	312,173
Within one year but over three months	564,261	452,423
Within five years but over one year	15,632	46,843
Over five years	193	220
At 31 December	738,920	811,659

The carrying amounts of the Group's loan receivables approximate to their fair values and are denominated in Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

31 December 2013

24. INVENTORIES

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Raw materials	446,602	445,167	168,483	147,257
Work in progress	444,486	395,807	145,722	147,153
Finished goods	854,697	593,591	295,328	32,282
Spare parts and consumables	20,321	35,301	18,301	16,598
	1,766,106	1,469,866	627,834	343,290

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately RMB9,318,046,000 (2012: approximately RMB9,846,895,000 (restated)) (Note 9). Provision for impairment on inventories recognised during the year, as included in 'cost of sales', amounted to approximately RMB12,893,000 (2012: approximately RMB11,961,000 (restated)) (Note 9).

25. TRADE AND BILL RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Bill receivables	1,269,769	1,315,487	417,625	615,028
Trade receivables	1,294,925	1,104,248	1,207,142	1,206,605
	2,564,694	2,419,735	1,624,767	1,821,633
Less: Impairment	(242,788)	(84,609)	(114,285)	(108,871)
	2,321,906	2,335,126	1,510,482	1,712,762

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted to its customers are ranging from 30 to 90 days (2012: from 30 to 90 days); otherwise, cash terms are normally required. The Group seeks to maintain strict control over its outstanding receivables. Trade receivables are non-interest-bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

25. TRADE AND BILL RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade and bill receivables approximate to their fair values and the majority of which are denominated in Renminbi.

An ageing analysis of the trade and bill receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Within 90 days	1,569,435	1,521,133	411,591	1,443,427
91 days to 180 days	490,629	670,156	1,027,657	187,752
181 days to 365 days	214,366	127,980	7,802	20,621
1 to 2 years	47,476	15,824	6,494	20,363
Over 2 years	—	33	56,938	40,599
	2,321,906	2,335,126	1,510,482	1,712,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

25. TRADE AND BILL RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
At 1 January				
— As previously reported	70,825	82,055	108,871	41,148
— Business combination under common control	13,784	10,571	—	—
— As restated	84,609	92,626	108,871	41,148
Provision for/(reversal of) impairment during the year (Note 9)	119,422	(2,000)	5,599	67,723
Amounts written off as uncollectible	(4,663)	(6,160)	(185)	—
Exchange realignment	(32)	142	—	—
Acquisition of subsidiaries	43,452	1	—	—
At 31 December	242,788	84,609	114,285	108,871

Included in the above provision for impairment of trade receivables are individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The ageing analysis of the trade and bill receivables that are not considered to be impaired as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Neither past due nor impaired	1,569,435	1,521,133	411,591	1,443,427
Less than six months past due	490,629	670,156	1,027,657	187,752
Over six months past due	261,842	143,837	71,234	81,583
	2,321,906	2,335,126	1,510,482	1,712,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

25. TRADE AND BILL RECEIVABLES (CONTINUED)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good trading record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2013, certain of the Group's bill receivables of approximately RMB209,826,000 (2012: approximately RMB192,050,000 (restated)) were pledged for the issuance of bill payables. The Company has not pledged its bill receivables for the years ended 31 December 2013 and 2012.

At 31 December 2013, certain of the Group's bill receivables of approximately RMB142,655,000 (2012: Nil), were pledged to secure bank borrowings granted to the Group (Note 34(ii)).

Included in the trade and bill receivables of the Group are unsecured trade receivables due from the Holding Company of approximately RMB Nil (2012: approximately RMB131,000). These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB4,113,000 (2012: approximately RMB14,749,000) and approximately RMB3,585,000 (2012: approximately RMB11,140,000), respectively. These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Company are unsecured trade receivables due from subsidiaries of approximately RMB1,308,077,000 (2012: approximately RMB1,179,830,000). These balances are interest-free and are repayable on demand.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Prepayments, deposits and other debtors	712,792	783,069	508,615	525,989
Less: Impairment	(22,822)	(24,106)	(4,241)	(8,015)
	689,970	758,963	504,374	517,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES
(CONTINUED)

The above balances are net of impairment allowance and the majority is denominated in Renminbi. The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
At 1 January				
— As previously reported	18,060	12,040	8,015	6,552
— Business combination under common control	6,046	5,742	—	—
— As restated	24,106	17,782	8,015	6,552
Acquisition of subsidiaries	38	—	—	—
Provision for/(reversal of) impairment during the year (Note 9)	316	6,324	(2,136)	1,463
Amounts written off as uncollectible	(1,638)	—	(1,638)	—
At 31 December	22,822	24,106	4,241	8,015

Included in other debtors of the Group and the Company are other unsecured receivables due from the Holding Company of approximately RMB17,881,000 (2012: approximately RMB50,156,000 (restated)) and approximately RMB1,160,000 (2012: approximately RMB32,606,000), respectively. These balances are interest-free and are repayable in accordance with terms agreed.

Included in other debtors of the Group and the Company are other unsecured receivables due from related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB2,695,000 (2012: approximately RMB56,398,000 (restated)) and approximately RMB Nil (2012: approximately RMB2,006,000), respectively. These balances are interest-free and are repayable in accordance with terms agreed.

Included in prepayments, deposits and other debtors of the Company are unsecured amounts due from subsidiaries of approximately RMB91,533,000 (2012: approximately RMB78,927,000). These balances are interest-free and are repayable in accordance with terms agreed.

Other balances are unsecured and interest-free, and repayable in accordance with terms agreed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Financial assets held for trading purposes:		
— Debt securities		
— Listed in the PRC		
— Government	<u>2,000</u>	76,000
— Equity securities		
— Listed in Hong Kong	<u>5,043</u>	4,575
— Listed in the PRC	<u>4,052</u>	6,226
	<u>9,095</u>	10,801
Financial assets designated at fair value through profit or loss		
— Investments in funds and trusts		
— Unlisted in the PRC	<u>348,000</u>	220,000
	<u>359,095</u>	<u>306,801</u>

The above financial assets as at 31 December 2013 and 2012 were without any restriction on sale.

The debt securities bear interest at rates 3.7% (2012: 3.7%) per annum, with maturity periods within 1 year (2012: 1 year).

28. HELD-TO-MATURITY FINANCIAL ASSETS

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
At amortised cost:		
Unlisted bonds in the PRC	<u>25,602</u>	<u>52,090</u>

Unlisted bonds bear interest ranging from 6.0% to 9.5% (2012: 5.2% to 8.5%) per annum and will mature between 7 March 2014 and 27 December 2014 (2012: between 7 March 2013 and 18 July 2013). Held-to-maturity financial assets are stated at amortised cost discounted by the effective interest method and net of any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Note	Group		Company	
	2013 RMB'000	2012 RMB'000 (Restated)	2013 RMB'000	2012 RMB'000
Cash and bank balances — <i>(Note(i))</i>	1,209,283	1,430,585	127,711	411,815
Mandatory reserve deposits with the PBOC — <i>(Note(ii))</i>	85,367	156,996	—	—
Time deposits — <i>(Note(iv))</i>	586,156	380,916	132,902	87,256
	1,880,806	1,968,497	260,613	499,071
Less: Pledged bank deposits for bill payables 30	(129,915)	(106,869)	(84,757)	(87,256)
Less: Pledged bank deposits for other banking facilities — <i>(Note(iii))</i>	(50,361)	(90,332)	(48,145)	—
Cash and cash equivalents in consolidated statement of financial position	1,700,530	1,771,296	127,711	411,815
Less: Mandatory reserve deposits with the PBOC — <i>(Note(ii))</i>	(85,367)	(156,996)		
Cash and cash equivalents in the consolidated statement of cash flows	1,615,163	1,614,300		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (CONTINUED)

Notes:

- (i) The balance included YTO Finance's deposits placed with the PBOC and other banks of approximately RMB351,986,000 (2012: approximately RMB544,858,000) and approximately RMB734,952,000 (2012: approximately RMB476,773,000), respectively.
- (ii) The balance represents mandatory reserve deposits placed with the PBOC. In accordance with the regulations of the PBOC, the balance should be no less than a specific percentage of the amounts of customer deposits placed with YTO Finance's. The mandatory reserve deposits are not available for use in the Group's day-to-day operations.
- (iii) As the bank balances were pledged for the Group's trade facilities for issuing bill payables and other banking facilities, they are included in cash and cash equivalents in the consolidated statement of cash flows.
- (iv) The maturity profile of the Group's time deposits at the end of the reporting period is analysed as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Maturity within three months when acquired	560,280	356,916
Maturity within one year but over three months when acquired	25,876	24,000
	586,156	380,916

At the end of the reporting period, the cash and bank balances of the Group denominated in HK dollars, US dollars and Euro amounted to approximately RMB27,694,000 (2012: approximately RMB28,697,000 (restated)), approximately RMB59,620,000 (2012: approximately RMB49,699,000 (restated)) and approximately RMB33,093,000 (2012: approximately RMB51,839,000 (restated)), respectively. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

30. TRADE AND BILL PAYABLES

An ageing analysis of the trade and bill payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Within 90 days	1,435,418	1,935,462	1,324,018	1,261,622
91 days to 180 days	973,908	537,585	288,568	278,030
181 days to 365 days	192,772	110,844	84,874	64,000
1 to 2 years	84,726	63,570	10,980	15,694
Over 2 years	59,784	56,019	24,428	28,204
	2,746,608	2,703,480	1,732,868	1,647,550

The Group's bill payables amounting to approximately RMB654,281,000 (2012: approximately RMB576,875,000 (restated)) are secured by the pledge of certain of the Group's bank deposits amounting to approximately RMB129,915,000 (2012: approximately RMB106,869,000 (restated)) (Note 29) and Group's bill receivables approximately RMB209,826,000 (2012: approximately RMB192,050,000 (restated)) (Note 25).

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the Holding Company of approximately RMB23,564,000 (2012: approximately RMB14,649,000 (restated)) and approximately RMB1,250,000 (2012: approximately RMB1,009,000), respectively. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB27,862,000 (2012: approximately RMB15,127,000 (restated)) and approximately RMB6,809,000 (2012: approximately RMB1,530,000), respectively. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Company are unsecured trade payables due to subsidiaries of approximately RMB100,708,000 (2012: approximately RMB139,871,000).

The carrying amounts of the Group's trade and bill payables approximate to their fair values and the majorities are denominated in Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

31. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2013	2012	2013	2012
	<i>Note</i>	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Accruals and other liabilities		657,354	903,785	123,023	192,140
Current portion of deferred income	36	<u>1,018</u>	<u>3,786</u>	<u>—</u>	<u>2,768</u>
		<u>658,372</u>	<u>907,571</u>	<u>123,023</u>	<u>194,908</u>

Included in other liabilities of the Group and the Company are amounts due to the Holding Company of approximately RMB50,871,000 (2012: approximately RMB196,804,000(restated)) and approximately RMB495,000 (2012: approximately RMB37,127,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB529,000 (2012: approximately RMB45,165,000 (restated)) and approximately RMB75,000 (2012: approximately RMB44,747,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Company are amounts due to subsidiaries of approximately RMB4,647,000 (2012: approximately RMB41,679,000). These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

32. CUSTOMER DEPOSITS

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Deposits from the Holding Company	314,845	582,721
Deposits from associates	332	73
Deposits from fellow subsidiaries and associates of the Holding Company	67,055	252,659
Deposits from customers	186,878	211,188
	569,110	1,046,641

All of these balances are unsecured and bear interest at rates ranging from 0.39% to 3.3% (2012: from 0.39% to 3.5%) per annum. The carrying amount of customer deposits approximate to their fair values and are denominated in Renminbi.

The maturity profile of the Group's customer deposits at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Repayable:		
On demand	413,837	828,776
Within three months	21,214	72,454
Within one year but over three months	134,059	145,411
	569,110	1,046,641

33. PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

As at 31 December 2013 and 2012, all placement counterparties of the Group are banks and non-bank financial institutions located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

34. BORROWINGS**Group**

	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000 (Restated)
Current:						
Bank borrowings						
— Secured	1.88%–7.2%	2014	231,156	—	—	—
— Unsecured	2.5%–5.84%	2014	361,281	2.5%–7.91%	2013	451,241
			<u>592,437</u>			<u>451,241</u>
Non-current:						
Other borrowings						
— Unsecured	4.1%	2018	84,189	4.1%–5.75%	2014–2017	617,500
Corporate bonds						
— Unsecured (Note)	4.71%–4.96%	2018	1,489,773	—	—	—
			<u>1,573,962</u>			<u>617,500</u>
			<u>2,166,399</u>			<u>1,068,741</u>
Analysed into:						
Borrowings repayable:						
Within one year and on demand			592,437			451,241
Between one to two years			—			413,000
Between two to three years			—			167,000
Between three to five years			<u>1,573,962</u>			<u>37,500</u>
			<u>2,166,399</u>			<u>1,068,741</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

34. BORROWINGS (CONTINUED)**Company**

	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000 (Restated)
Current:						
Bank borrowings						
— Secured	2.9%	2014	35,250	—	—	—
— Unsecured	2.9%–5.1%	2014	<u>715,895</u>	3.85%–5.32%	2013	<u>886,041</u>
			<u>751,145</u>			<u>886,041</u>
Non-current:						
Other borrowings						
— Unsecured	4.1%	2018	84,189	4.1%–5.75%	2014–2017	617,500
Corporate bonds						
— Unsecured (Note)	4.71%–4.96%	2018	<u>1,489,773</u>	—	—	<u>—</u>
			<u>1,573,962</u>			<u>617,500</u>
			<u>2,325,107</u>			<u>1,503,541</u>
Analysed into:						
Borrowings repayable:						
Within one year and on demand			751,145			886,041
Between one to two years			—			413,000
Between two to three years			—			167,000
Between three to five years			<u>1,573,962</u>			<u>37,500</u>
			<u>2,325,107</u>			<u>1,503,541</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

34. BORROWINGS (CONTINUED)

The borrowings of the Group and the Company as at 31 December 2013 and 2012 are denominated in the following currencies:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
HKD	35,626	—	35,626	—
RMB	1,983,757	939,505	2,153,751	1,493,484
US dollar	51,541	51,541	51,541	10,057
Euro	84,189	66,541	84,189	—
West African CFA franc	11,286	11,154	—	—
	2,166,399	1,068,741	2,325,107	1,503,541

Note:

The Company issued the five-year corporate bonds to the public with an aggregate principal amount of RMB1,500,000,000 (the "Corporate Bonds") in the Shanghai Stock Exchange, subject to the right of sale-back. The Corporate Bonds are divided into two tranches, amounting to RMB800,000,000 ("Tranche 1") issued on 4 March 2013 and RMB700,000,000 ("Tranche 2") issued on 3 June 2013, and carry coupon rates of 4.8% and 4.5% for Tranche 1 and Tranche 2, and will be matured on 4 March 2018 and 30 May 2018, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

34. BORROWINGS (CONTINUED)

Other interest rate information:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Fixed interest rate	1,696,965	768,741	1,489,773	1,203,541
Floating interest rate	469,434	300,000	835,334	300,000
	2,166,399	1,068,741	2,325,107	1,503,541

At 31 December, 2013, the borrowings of the Group and the Company are secured by:

- (i) the Group's land use rights with carrying amount of approximately RMB153,936,000 (2012 : Nil) (Note 18);
- (ii) the Group's bills receivables with carrying amount of approximately RMB142,655,000 (2012 : Nil) (Note 25); and
- (iii) the pledged bank deposits of the Group and the Company with carrying amount of approximately RMB17,780,000 (2012 : Nil) (Note 29(iii)).

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values, which are calculated by discounting the expected future cash flows at the prevailing interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

35. PROVISIONS**Group**

	Early retirement benefits <i>RMB'000</i> (Restated)	Product warranties <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
2012			
At 1 January 2012			
— As previously reported	64,720	22,123	86,843
— Business combination under common control	32,837	—	32,837
— As restated	97,557	22,123	119,680
Provision for the year (Note 9)	15,692	102,465	118,157
Amounts utilised during the year	(32,544)	(103,222)	(135,766)
At 31 December 2012	80,705	21,366	102,071
Portion classified as current liabilities	(49,245)	(21,366)	(70,611)
Non-current portion	31,460	—	31,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

35. PROVISIONS (CONTINUED)**Group**

	Early retirement benefits <i>RMB'000</i>	Product warranties <i>RMB'000</i>	Total <i>RMB'000</i>
2013			
At 1 January 2013			
— As previously reported	50,629	21,366	71,995
— Business combination under common control	30,076	—	30,076
— As restated	80,705	21,366	102,071
Provision for the year (Note 9)	32,918	124,481	157,399
Amounts utilised during the year	(50,426)	(122,332)	(172,758)
At 31 December 2013	63,197	23,515	86,712
Portion classified as current liabilities	(18,577)	(23,515)	(42,092)
Non-current portion	44,620	—	44,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

35. PROVISIONS (CONTINUED)**Company**

	Early retirement benefits <i>RMB'000</i>	Product warranties <i>RMB'000</i>	Total <i>RMB'000</i>
2012			
At 1 January 2012	55,128	—	55,128
Provision for the year	2,367	11,509	13,876
Amounts utilised during the year	(18,657)	(6,009)	(24,666)
At 31 December 2012	38,838	5,500	44,338
Portion classified as current liabilities	(14,758)	(5,500)	(20,258)
Non-current portion	24,080	—	24,080

Company

	Early retirement benefits <i>RMB'000</i>	Product warranties <i>RMB'000</i>	Total <i>RMB'000</i>
2013			
At 1 January 2013	38,838	5,500	44,338
Provision for the year	3,092	8,432	11,524
Amounts utilised during the year	(14,808)	(9,482)	(24,290)
At 31 December 2013	27,122	4,450	31,572
Portion classified as current liabilities	(11,029)	(4,450)	(15,479)
Non-current portion	16,093	—	16,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

35. PROVISIONS (CONTINUED)

A provision for early retirement benefits was recorded during the year in connection with the early retirement plans for the Group's employees. Further details of the early retirement plans are included in Note 43 to the consolidated financial statements.

The Group provides warranties for certain of its products sold, under which faulty products are repaired or replaced. The estimation basis is reviewed regularly and is revised where appropriate.

36. DEFERRED INCOME

The movements of deferred income in relation to government grants as stated under current and non-current liabilities are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
At 1 January				
— As previously reported	165,226	115,514	143,700	93,784
— Business combination under common control	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
— As restated	165,226	115,514	143,700	93,784
Received during the year	34,502	83,864	2,700	56,780
Recognised as other income and gains during the year (Note 7)	<u>(17,821)</u>	<u>(34,152)</u>	<u>(6,874)</u>	<u>(6,864)</u>
At 31 December	181,907	165,226	139,526	143,700
Current portion - included in other payables and accruals (Note 31)	<u>(1,018)</u>	<u>(3,786)</u>	<u>—</u>	<u>(2,768)</u>
Non-current portion	<u>180,889</u>	<u>161,440</u>	<u>139,526</u>	<u>140,932</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX

The following is the analysis of the deferred tax balances for financial reporting purpose:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
For purpose of disclosure:				
Deferred income tax assets	76,350	64,585	5,033	6,790
Deferred income tax liabilities	(49,917)	(15,209)	(2,717)	(4,169)
Net book amount at 31 December	26,433	49,376	2,316	2,621

The movements in deferred income tax liabilities and assets during the years are as follows:

Deferred income tax liabilities

	Fair value adjustment on investment properties RMB'000 (Restated)	Fair value adjustment on property, plant and equipment RMB'000 (Restated)	Group Fair value adjustment on prepaid operating leases RMB'000 (Restated)	Fair value changes of available-for- sale financial assets RMB'000 (Restated)	Company Fair value changes of available- for- sale financial assets Total RMB'000 (Restated)	Company Fair value changes of available- for- sale financial assets RMB'000 (Restated)
At 1 January 2012						
— As previously reported	4,767	14	6,119	4,230	15,130	3,562
— Business combination under common control	—	—	—	—	—	—
— As restated	4,767	14	6,119	4,230	15,130	3,562
Deferred income tax credited to profit or loss during the year (Note 12)	(206)	(14)	(230)	—	(450)	—
Deferred income tax charged to other comprehensive income during the year (Note 12)	—	—	—	529	529	607
Gross deferred income tax liabilities at 31 December 2012	4,561	—	5,889	4,759	15,209	4,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax liabilities and assets during the years are as follows: *(Continued)*

Deferred income tax liabilities *(Continued)*

	Fair value adjustment on investment properties <i>RMB'000</i>	Fair value adjustment on property, plant and equipment <i>RMB'000</i>	Group Fair value adjustment on prepaid operating leases <i>RMB'000</i>	Fair value changes of available-for- sale financial assets <i>RMB'000</i>	Company Fair value changes of available-for- sale financial assets <i>RMB'000</i>
					Total <i>RMB'000</i>
At 1 January 2013					
— As previously reported	4,561	—	5,889	4,759	15,209
— Business combination under common control	—	—	—	—	—
— As restated	4,561	—	5,889	4,759	15,209
Acquisition of subsidiaries (Note 41(a))	—	21,631	16,062	—	37,693
Deferred income tax credited to profit or loss during the year (Note 12)	(412)	(261)	(270)	(590)	(1,533)
Deferred income tax credited to other comprehensive income during the year (Note 12)	—	—	—	(1,452)	(1,452)
Gross deferred income tax liabilities at 31 December 2013	<u>4,149</u>	<u>21,370</u>	<u>21,681</u>	<u>2,717</u>	<u>49,917</u>

No deferred income tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax liabilities and assets during the years are as follows: *(Continued)*

Deferred income tax assets

	Group				
	Loss available for offset against future taxable profit	Early retirement benefits	Fair value changes of available- for-sale financial assets	Other deductible temporary differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
At 1 January 2012					
— As previously reported	22,282	8,890	7,196	8,299	46,667
— Business combination under common control	—	—	—	—	—
— As restated	22,282	8,890	7,196	8,299	46,667
Deferred income tax credited/(charged) to profit or loss during the year <i>(Note 12)</i>	19,230	(2,257)	(405)	1,135	17,703
Deferred income tax credited to the other comprehensive income during the year <i>(Note 12)</i>	—	—	215	—	215
Gross deferred income tax assets at 31 December 2012	<u>41,512</u>	<u>6,633</u>	<u>7,006</u>	<u>9,434</u>	<u>64,585</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax liabilities and assets during the years are as follows: *(Continued)*

Deferred income tax assets *(Continued)*

	Group				
	Loss available for offset against future taxable profit <i>RMB'000</i>	Early retirement benefits <i>RMB'000</i>	Fair value changes of available- for-sale financial assets <i>RMB'000</i>	Other deductible temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013					
— As previously reported	41,512	6,633	7,006	9,434	64,585
— Business combination under common control	—	—	—	—	—
— As restated	41,512	6,633	7,006	9,434	64,585
Deferred income tax credited/(charged) to profit or loss during the year <i>(Note 12)</i>	14,832	(1,920)	(3,806)	1,743	10,849
Deferred income tax credited to the other comprehensive income during the year <i>(Note 12)</i>	—	—	916	—	916
Gross deferred income tax assets at 31 December 2013	<u>56,344</u>	<u>4,713</u>	<u>4,116</u>	<u>11,177</u>	<u>76,350</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax liabilities and assets during the years are as follows: *(Continued)*

Deferred income tax assets *(Continued)*

	Early retirement benefits <i>RMB'000</i>	Company Other deductible temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2012	8,126	907	9,033
Deferred income tax (charged)/credited to profit or loss during the year	(2,300)	57	(2,243)
Deferred income tax assets at 31 December 2012	<u>5,826</u>	<u>964</u>	<u>6,790</u>

	Early retirement benefits <i>RMB'000</i>	Company Other deductible temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	5,826	964	6,790
Deferred income tax charged to profit or loss during the year	(1,744)	(13)	(1,757)
Deferred income tax assets at 31 December 2013	<u>4,082</u>	<u>951</u>	<u>5,033</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

37. DEFERRED INCOME TAX (CONTINUED)**Deferred income tax assets (Continued)**

The principal components of the Group's deductible temporary differences and unused tax losses for which no deferred income tax assets were recognised in the consolidated financial statements are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Tax losses - PRC	307,969	200,201
Deductible temporary differences	401,312	228,226
	709,281	428,427

Deferred income tax assets have not been recognised in respect of these unused tax losses and deductible temporary differences, as they have arisen in companies that have been loss-making for some time and their future profit streams are unpredictable, rendering the underlying recoverability of the deferred income tax assets uncertain. The unused tax losses will be available within five years for offsetting against future taxable profits of the companies in which the losses arose.

The unrecognised tax losses will expire in the following years ending 31 December:

	2013	2012
	RMB'000	RMB'000
		(Restated)
2013	—	50,599
2014	8,606	10,545
2015	56,096	61,740
2016	37,783	42,372
2017	25,301	34,945
2018	180,183	—
	307,969	200,201

There were no income tax consequences in relation to the payment of dividends by the Company to its shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

38. SHARE CAPITAL

	2013		2012	
	Number of shares (thousand)	Nominal value RMB'000	Number of shares (thousand)	Nominal value RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each				
— held by Holding Company	443,910	443,910	443,910	443,910
— held by other A share shareholders	150,000	150,000	150,000	150,000
H shares of RMB1.00 each	401,990	401,990	401,990	401,990
	995,900	995,900	995,900	995,900

A summary of the movement in the Company's issued share capital is as follows:

	Domestic shares held by Holding Company RMB'000	Domestic shares held by other A share shareholders RMB'000	H shares RMB'000	Total RMB'000
As at 1 January 2012	443,910	—	401,990	845,900
Issue of new A shares (Note 38(b))	—	150,000	—	150,000
As at 31 December 2012, 1 January 2013 and 31 December 2013	443,910	150,000	401,990	995,900

- (a) The Domestic shares rank pari passu, in all material respects, with the H shares. However, the transfer of Domestic shares is subject to certain restrictions imposed by the PRC law from time to time.
- (b) On 8 August 2012, the Company issued 150,000,000 new A shares at RMB5.4 per share. Net proceeds resulting from the share issuance amounted to approximately RMB773,733,000 after deducting the share issuance costs of approximately RMB36,267,000, out of which RMB150,000,000 was recorded in share capital and RMB623,733,000 was credited to share premium (Note 39(b)). The listing and trading of the A shares on the Shanghai Stock Exchange commenced on 8 August 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

39. RESERVES**(a) Group**

Group reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Share premium represents proceeds from the issuance of H shares and A shares issued in excess of their par value, net of underwriting commissions, professional fees and other reorganisation costs for listing purpose.

Capital reserve mainly comprised: (i) the excess/deficiency of the carrying amount of net assets over the purchase consideration for subsidiaries acquired under common control, (ii) deferred income recognised in equity pursuant to relevant regulations and guidance issued by the Ministry of Finance in the PRC, and (iii) the excess/deficiency of the considerations paid for/received from over the changes in the carrying amounts of non-controlling interests in the acquisitions of further interests in subsidiaries or disposal of part interests in subsidiaries, respectively.

In accordance with PRC Company Law and the Company's Articles of Association, the Company is required to appropriate 10% of its annual statutory profit after tax, as determined in accordance with PRC accounting standards and regulations to a statutory surplus reserve (the "SSR"). No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

Moreover, upon a resolution made by the shareholders, a certain percentage of its annual statutory profit after tax is transferred to the general surplus reserve (the "GSR"). During the year, no GSR (2012: Nil), as dealt with in the Group's consolidated financial statements, were appropriated by the Company and its subsidiaries.

The SSR and GSR may only be used to offset accumulated losses, expand the production operations of the Company, or to increase its paid-up capital.

Pursuant to the relevant laws and regulations, certain subsidiaries of the Group which are Sino-foreign joint ventures registered in the PRC, certain profits of these subsidiaries are required to be and have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

During the year, the Company's aggregate appropriation to the SSR as dealt with in the Group's consolidated financial statements, was approximately RMB23,870,000 (2012: approximately RMB43,096,000).

The associate did not make any appropriation to the SSR in the current and prior years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

39. RESERVES (CONTINUED)**(a) Group (Continued)**

Pursuant to the relevant PRC regulations, YTO Finance, being a non-bank subsidiary financial institution of the Group, is required to transfer a certain amount of its profit, based on 1% of realised net profit for the year (2012: determined based on 1% of realised net profit for the year), to the general and statutory fund through its profit appropriation.

Pursuant to the CaiQi [2012] No.16 "Measures for the Extraction and Management of the Production Safety fund for the enterprises" issued by the Ministry of Finance and the Safety Production General Bureau, the Group is required to accrue production safety fund to improve the production safety.

(b) Company

		Share premium account	Capital reserve	Statutory surplus reserve	General surplus reserve	Available- for-sale financial assets reserve	Retained earnings	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012		1,539,938	7,990	136,901	48,388	20,182	388,685	2,142,084
Profit for the year	13	—	—	—	—	—	431,952	431,952
Changes in fair values of available-for-sale financial assets		—	—	—	—	3,441	—	3,441
Issue of new A shares	38	623,733	—	—	—	—	—	623,733
Proposed final 2012 dividend	14	—	—	—	—	—	(99,590)	(99,590)
Transfer to/(from) reserves		—	—	43,096	—	—	(43,096)	—
At 31 December 2012		<u>2,163,671</u>	<u>7,990</u>	<u>179,997</u>	<u>48,388</u>	<u>23,623</u>	<u>677,951</u>	<u>3,101,620</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

39. RESERVES (CONTINUED)**(b) Company (Continued)**

		Share premium account	Capital reserve	Statutory surplus reserve	General surplus reserve	Available- for-sale financial assets reserve	Retained earnings	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013		2,163,671	7,990	179,997	48,388	23,623	677,951	3,101,620
Profit for the year	13	—	—	—	—	—	238,693	238,693
Changes in fair values of available-for-sale financial assets		—	—	—	—	(8,228)	—	(8,228)
Proposed final 2013 dividend	14	—	—	—	—	—	(59,754)	(59,754)
Transfer to/(from) reserves		—	—	23,870	—	—	(23,870)	—
At 31 December 2013		<u>2,163,671</u>	<u>7,990</u>	<u>203,867</u>	<u>48,388</u>	<u>15,395</u>	<u>833,020</u>	<u>3,272,331</u>

During the year, the Company appropriations to the SSR amounted to approximately RMB23,870,000 (2012: approximately RMB43,096,000).

At the end of the reporting period, the Company did not utilise any of the SSR.

As at 31 December 2013, the Company has retained earnings of approximately RMB833,020,000 (2012: approximately RMB677,951,000) available for distribution by way of cash or cash in kind.

As at 31 December 2013, in accordance with PRC Company Law, an amount of approximately RMB2,163,671,000 (2012: approximately RMB2,163,671,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES**(a) Acquisition of additional interests in subsidiaries in the current year**

- (i) On 7 June 2013, the Company acquired an additional 2.25% equity interest in Yituo (Luoyang) Fuel Injection Pump Company Limited ("YLFIP") from an independent third party at a consideration of approximately RMB4,027,000. The carrying amount of the non-controlling interests in YLFIP on the date of acquisition was approximately RMB2,786,000. The Group recognised a decrease in non-controlling interests of approximately RMB2,786,000 and a decrease in equity attributable to owners of the Company of approximately RMB1,241,000. The effect of changes in the ownership interest of YLFIP on the equity attributable to owners of the Company during the period is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	2,786
Consideration paid to non-controlling interests	(4,027)
Excess of consideration paid recognised in capital reserve within equity	(1,241)

- (ii) On 14 June 2013, the Company entered into the Capital Increase Agreement with YLFIP, pursuant to which the Company agreed to make capital contribution of RMB105,000,000 in cash to YLFIP. The equity interest in YLFIP is owned as to 42.544% by the Company, 39.272% by Yituo (Luoyang) Diesel Company Limited ("YLDC") and 18.184% by the Holding Company. After the acquisition, the registered capital of YLFIP increased from RMB94,114,000 to RMB161,915,000 and the equity interest in YLFIP were owned as to 66.603% by the Company, 22.827% by YLDC and 10.570% by the Holding Company. The Group recognised an increase in non-controlling interests of approximately RMB2,294,000 and a decrease in equity attributable to equity holders of the Company of approximately RMB2,294,000. The effect of changes in the ownership interest of YLFIP on the equity attributable to owners of the Company during the period is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	(2,294)
Consideration paid to non-controlling interests	—
Excess of consideration paid recognised in capital reserve within equity	(2,294)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES
*(CONTINUED)***(a) Acquisition of additional interests in subsidiaries in the current year**
(Continued)

- (iii) On 11 July 2013, the Company entered into Capital Increase Agreement (the "Agreement") with two non-wholly owned subsidiaries, Brilliance China Machinery Holdings Limited and Yituo (Luoyang) Diesel Company Ltd. ("YLDC"), and the independent third party, Luoyang Yunhao Enterprise Management Consultancy Company Limited ("Yunhao") to make the additional capital contribution (the "capital contribution") through both assets and equity injection into YLDC.

Before the capital contribution, the equity interest in YLDC by the Group was owned as to 81.33%. Upon the completion of the capital contribution on 31 August 2013, the equity interest in YLDC by the Group was increased to 85.47%. The Group recognised a decrease in non-controlling interests of approximately RMB12,983,000 and a decrease in equity attributable to equity holders of the Company of approximately RMB23,391,000. The effect of changes in the ownership interest of YLDC on the equity attributable to owners of the Company during the year is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	12,983
Consideration paid to non-controlling interests	(36,374)
Excess of consideration paid recognised in capital reserve within equity	(23,391)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES
*(CONTINUED)***(a) Acquisition of additional interests in subsidiaries in the current year**
(Continued)

- (iv) On 31 August 2013, the Company acquired an additional 8% direct equity interest in YTO (Luoyang) Power Machinery Company Ltd. ("YLPM") at a consideration of approximately RMB5,024,000. At the same date, the Company transferred its thereby 50% equity interest in YLPM to YLDC through capital contribution (see Note 40(a)(iii)) making YLPM became a 100% owned subsidiary of YLDC. The carrying amount of the non-controlling interests in YLPM on the date of acquisition was a surplus balance of approximately RMB4,087,000. The Group recognised a decrease in non-controlling interests of approximately RMB4,087,000 and a decrease in equity attributable to equity holders of the Company of approximately RMB937,000.

The effect of changes in the ownership interest of YLPM on the equity attributable to owners of the Company during the period is summarised as follows:

	2013
	RMB'000
Carrying amount of non-controlling interests acquired	4,087
Consideration paid to non-controlling interests	(5,024)
Excess of consideration paid recognised in capital reserve within equity	(937)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES
*(CONTINUED)***(b) Acquisition of additional interests in subsidiaries 2012**

During 2012, the Group acquired additional equity interest of three subsidiaries from the Holding Company and independent third parties as follows:

- (i) On 31 May 2012, the Company acquired an additional 24% equity interest in Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") at a consideration of approximately RMB1. The carrying amount of the non-controlling interests in YLST on the date of acquisition was a deficit balance of approximately RMB2,982,000. The Group recognised a decrease in non-controlling interests of approximately RMB2,982,000 and a decrease in equity attributable to owners of the Company of approximately RMB2,982,000. The effect of changes in the ownership interest of YLST on the equity attributable to owners of the Company during the year is summarised as follows:

	2012 RMB'000
Carrying amount of non-controlling interests acquired (net liabilities)	(2,982)
Consideration paid to non-controlling interests	—
Excess of consideration paid recognised in capital reserve within equity	<u>(2,982)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES
*(CONTINUED)***(b) Acquisition of additional interests in subsidiaries 2012** *(Continued)*

- (ii) On 1 July 2012, the Company acquired an additional 0.8% equity interest in YTO Finance at a consideration of approximately RMB4,624,000. The carrying amount of the non-controlling interests in YTO Finance on the date of acquisition was a surplus balance of approximately RMB4,917,000. The Group recognised a decrease in non-controlling interests of approximately RMB4,917,000 and a increase in equity attributable to owners of the Company of approximately RMB293,000. The effect of changes in the ownership interest of YTO Finance on the equity attributable to owners of the Company during the year is summarised as follows:

	2012 RMB'000
Carrying amount of non-controlling interests acquired	4,917
Consideration paid to non-controlling interests	<u>(4,624)</u>
Difference of consideration paid recognised in capital reserve within equity	<u><u>293</u></u>

- (iii) On 14 November 2012, the Group entered into a Sale and Purchase Agreement with the Holding Company to acquire a 100% equity interest in YTO (Luoyang) Flag Auto-Body Co., Ltd. ("YTO Flag") at a consideration of approximately RMB158,789,000. YTO Flag was engaged in the production and sale of covering parts, driving cabins, auto parts and other components of automobiles, agricultural and construction machinery.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES
*(CONTINUED)***(b) Acquisition of additional interests in subsidiaries 2012** *(Continued)*

As at 31 December 2011, the Holding Company held 51.39% of equity interest and subsequently acquired an additional 48.61% equity interest on 31 July 2012 in YTO Flag from YTO (Luoyang) Kintra Equipment Science & Technology Company Limited and independent third parties for a consideration of approximately RMB 112,840,000. Upon the completion of this further acquisition, YTO Flag became a wholly owned subsidiary of the Holding Company. As both the Company and YTO Flag are under the common control of the Holding Company immediately before and after the acquisition, the Group has applied merger accounting as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for business combinations under common control. Accordingly, the financial statements of YTO Flag have been consolidated since the date of the earliest financial period presented, as if the acquisition of 51.39% equity interest had occurred at that time and 100% equity interest had occurred after 31 July 2012, pursuant to the acquisition stages of the Holding Company.

The carrying amount of the non-controlling interests in YTO Flag on the date of acquisition was a surplus balance of approximately RMB88,832,000. The Group recognised a decrease in non-controlling interests of approximately RMB88,832,000 and an increase in equity attributable to equity holders of the Company of approximately RMB88,832,000. The effect of changes in the ownership interest of YTO Flag on the equity attributable to owners of the Company during the year is summarised as follows:

	2012 RMB'000
Carrying amount of non-controlling interests acquired	88,832
Consideration paid to non-controlling interests	—
Difference of consideration paid recognised in capital reserve within equity	<u>88,832</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES**(a) Acquisition of subsidiaries in the current year**

- (i) Changtuo Agricultural Machinery Equipment Group Company Limited (“Changtuo Company”)

On 8 February 2013, the Parent, Changchun State-owned Capital Investment and Operation Company Limited (“Changchun Investment”), the Company and Changtuo Agricultural Machinery Equipment Group Company Limited (“Changtuo Company”) entered into the Capital Increase and Restructure Agreement, pursuant to which the Company agreed to make new capital contribution of RMB94,250,000 in cash to Changtuo Company. Upon completion of this acquisition, the registered and paid-up capital of Changtuo Company will increase from RMB188,000,000 to RMB282,000,000 and the equity interest in Changtuo Company will thereby be owned as to one-third by each of the Parent, Changchun Investment and the Company. Subsequent to the above capital injection for the acquisition, the Parent has assigned all its voting rights in the directors’ and shareholders’ meetings of Changtuo Company to the Company due to strategic reason. Therefore, the Company can exercise control over the financial and operating policies of Changtuo Company. Changtuo Company is principally engaged in the research and development, manufacture and sale of tractors, agricultural machineries and their accessories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries in the current year (Continued)**

- (i) Changtuo Agricultural Machinery Equipment Group Company Limited ("Changtuo Company") *(Continued)*

The acquisition was accounted for using the purchase method.

Net assets acquired in the transactions are as follows:

	<i>Note</i>	2013 Fair value RMB'000
Net assets acquired:		
Property, plant and equipment	16	192,698
Prepaid operating leases	18	45,162
Inventories		6,422
Trade and bill receivables		5,782
Prepayments, deposits and other receivables		11,873
Cash and cash equivalents		94,666
Trade and bill payables		(8,750)
Borrowings		(70,000)
Other payables and accruals		(27,814)
Deferred income tax liabilities	37	(10,183)
Net assets acquired		239,856
Non-controlling interests		(159,904)
Goodwill		14,298
Total consideration		94,250
Satisfied by:		
Cash		94,250
Net cash inflow in respect of the net assets acquired:		
Cash consideration paid		(94,250)
Cash and cash equivalents acquired		94,666
Net cash inflow		416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries in the current year (Continued)**

- (i) Changtuo Agricultural Machinery Equipment Group Company Limited (“Changtuo Company”) *(Continued)*

The goodwill arising on the acquisition is attributable to its anticipated potential profitability and historical industry growth in relation to the business at the time of which the transaction was negotiated. However, after the acquisition, the directors of the Company are of the opinion that the performance and profitability of the acquired business cannot be met in the foreseeable future. As a result, the goodwill was fully impaired at 31 December 2013.

Acquisition-related costs amounted to approximately RMB255,000 have been recognised as administrative expenses in the profit or loss for the year.

Included in the revenue and profit or loss for the period are approximately RMB21,735,000 and a loss of RMB30,741,000 attributable to the additional business generated by this newly acquired subsidiary.

Had the business combination been effected on 1 January 2013, the revenue of the Group would be approximately RMB11,039,014,000, and profit for the year of the Group would be approximately RMB257,489,000. The directors of the Company consider these ‘pro-forma’ figures an approximate measure of the performance of the combined group on an annualised basis and only a reference point for comparison in future periods.

- (ii) Yang Dong Company Limited (揚動股份有限公司) (“Yang Dong”)

On 17 April 2009, Bank of China-Taizhou Branch, Agricultural Bank of China-Taizhou Branch, Industrial and Commercial Bank of China-Taizhou Branch, China Citic Bank-Taizhou Branch, China Everbright Bank-Nanjing Branch, Jiangsu Jiangyan Rural Cooperative Bank and Taizhou Guoxi Credit Guaranty Co., Ltd. (collectively referral as to the “Petitioners”) presented petitions (the “Petition”) to the People’s Court of the Jiangsu Province Jiangyan city (“the Court”) for the winding up of Yang Dong, as Yang Dong could not meet creditors’ demands for the repayment of its outstanding debts. Upon the application of the Petitioners, 姜堰市光明會計師事務所有限公司 was appointed as an escrow agent of Yang Dong pursuant to the court order dated 29 April 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries in the current year (Continued)****(ii) Yang Dong Company Limited (揚動股份有限公司) ("Yang Dong") (continued)**

On 25 January 2010, the Company, Yituo (Luoyang) Diesel Co., Ltd. ("YLDC", a subsidiary of the Company with 85.47% equity interest), Yang Dong and Jiangyan Industrial Assets Management Company Limited (the "Investor") entered into a Restructuring Investment Agreement ("Restructuring Agreement") for the implementation of the restructuring proposal on Yang Dong. Pursuant to the Restructuring Agreement, the Company, YLDC and the Investor agreed to set up Yituo (Jiangyan) Power Co., Ltd. ("YJPL") to be the immediate holding company of Yang Dong. YJPL was responsible to the restructuring procedures. The equity interest in YJPL is 38% owned by the Company, 40% by YLDC and 22% by the Investor.

On 8 March 2010, in order to facilitate the restructuring, Yang Dong was placed in the restructuring procedures of a three-year period pursuant to the order made by the Court. On the same date, the Court announced that all equity interest in Yang Dong should be transferred to YJPL at a Nil consideration.

Pursuant to the Restructuring Agreement, YJPL and Yang Dong entered into a loan agreement (the "Loan Agreement") on 8 March 2010, pursuant to which YJPL agreed to provide an interest-free loan up to RMB100,000,000 to Yang Dong for the full settlement of its external borrowings to ease its financial position. Three interest-free loans of RMB20,000,000, RMB20,000,000 and RMB60,000,000 were drawn down by Yang Dong on 8 May 2010, 8 May 2012 and 1 July 2013, respectively, in respect of the Loan Agreement, these loans will be repaid in five years from the draw down dates. On initial measurement date, the fair value of the above loans were estimated to be approximately RMB85,290,000, which has been arrived using effective interest method by discounting future repayment at a discount rate of 6.4%. The management considered the difference between the carrying value and fair value was insignificant, no adjustment was made.

Pursuant to the Restructuring Agreement, YJPL was responsible to resume the production and technology advancement based on the business of Yang Dong by investing not less than RMB175,000,000 during the restructuring period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries in the current year (Continued)****(ii) Yang Dong Company Limited (揚動股份有限公司) ("Yang Dong") (continued)**

On 29 November 2013, YJPL submitted the company resumption proposal of Yang Dong to the Court as YJPL was able to fulfill and achieve the restructuring and the resumption conditions as mentioned above. After the above submission, the restructuring procedure was confirmed complete pursuant to the order dated 3 December 2013 made by the Court. The acquisition of Yang Dong was then formally completed by the Group on 3 December 2013.

The acquisition was therefore accounted for using the purchase method. The net assets acquired in the transactions are as follows:

	<i>Note</i>	2013 Fair value RMB'000
Net assets acquired:		
Property, plant and equipment	16	142,689
Prepaid operating leases	18	71,610
Trade and bill receivables		738
Cash and cash equivalents		30
Trade and bill payables		(172)
Other payables and accruals		(102,903)
Deferred income tax liabilities	37	(27,510)
Net assets acquired		84,482
Non-controlling interests		(22)
Gain on bargain purchase	7, 9	(84,460)
Total consideration		—
Net cash inflow in respect of the net assets acquired:		
Cash and cash equivalents acquired		30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries in the current year (Continued)****(ii) Yang Dong Company Limited (揚動股份有限公司) (“Yang Dong”) (continued)**

Gain on bargain purchase of approximately RMB84,460,000 was recognised upon formal completion of the acquisition of Yang Dong. The gain from a bargain purchase on acquisition was mainly contributed by the fair value adjustments to property, plant and equipment and prepaid operating leases of approximately RMB112,000,000, which was attributable to the depressed market value of the acquired business due to the years of losses and the net liabilities position of Yang Dong. The introduction of the Company as the new controlling shareholder of Yang Dong was expected to strengthen its capital base, settle external borrowings, meet its working capital requirements and facilitate its future potential business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of above gain for the year.

Acquisition-related costs amounted to approximately RMB240,000 have been recognised as administrative expenses in the profit or loss for the year.

Included in the revenue and profit for the year ended 31 December 2013 of the Group were RMB Nil and a loss of RMB985,000, respectively, which represent the revenue and loss of Yang Dong for the year.

Had the business combination been effected on 1 January 2013, the revenue of the Group would be RMB11,037,840,000, and profit for the year of the Group would be approximately RMB250,905,000. The directors of the Company consider these ‘pro-formas’ an approximate measure of the performance of the combined group on an annualised basis and only a reference point for comparison in future periods.

(b) Acquisition of a subsidiary in the 2012

On 31 May 2012, the Group acquired a further 60% equity interest in YTO Shunxing (Luoyang) Spare Parts Co., Ltd. (“YTO Shunxing”) at a consideration of approximately RMB20,765,000 from independent third parties. Prior to the acquisition, the Group held a 40% equity interest in YTO Shunxing. YTO Shunxing is principally engaged in the manufacture, sale and service of forged steel crankshafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(b) Acquisition of a subsidiary in the 2012 (continued)**

The acquisition was accounted for using the purchase method.

Net assets acquired in the transactions are as follows:

	Note	2012 Fair value RMB'000
Net assets acquired:		
Property, plant and equipment	16	22,673
Inventories		4,402
Trade and bill receivables		7,243
Prepayments, deposits and other receivables		1,341
Cash and cash equivalents		5,242
Trade and bill payables		(5,623)
Other payables and accruals		(670)
Net assets acquired		34,608
Interest transferred from associates		(13,843)
Total consideration		<u>20,765</u>
Satisfied by:		
Cash		<u>20,765</u>
Net cash outflow in respect of the net assets acquired:		
Cash consideration paid		(20,765)
Cash and cash equivalents acquired		5,242
Net cash outflow		<u>(15,523)</u>

Included in the revenue and profit or loss for the year 2012 are approximately RMB4,839,000 and RMB484,000 attributable to the additional business generated by this newly acquired subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)**(b) Acquisition of a subsidiary in the 2012 (continued)**

Had the business combination been effected on 1 January 2012, the revenue of the Group would be approximately RMB11,322,782,000, and profit for the year of the Group would be approximately RMB485,168,000. The directors of the Company consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and only a reference point for comparison in future periods.

42. BUSSINESS COMBINATION UNDER COMMON CONTROL**(a) Acquisition of interests in subsidiaries in the current year**

On 22 January 2013, the Group acquired a 100% equity interest in YTO (Luoyang) Foundry Company Limited ("YTO Foundry") from the Holding Company at a consideration of approximately RMB104,478,000. The principal activities of YTO Foundry are processing and sale of casting blank and semi-finished products. The financial statements of YTO Foundry are consolidated by the Group as the Group has control over operating and financial policies of this entity.

As mentioned in Note 3.1 to the consolidated financial statements, the Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for the business combination under common control. Accordingly, YTO Foundry has been combined since 1 January 2012, the earliest financial period presented, as if the acquisition had been occurred at that time.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

42. BUSSINESS COMBINATION UNDER COMMON CONTROL
*(CONTINUED)***(a) Acquisition of interests in subsidiaries in the current year** *(Continued)*

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2013, 2012 and 2011 is as follows:

2013

	The Group excluding YTO Foundry <i>RMB'000</i>	YTO Foundry <i>RMB'000</i>	Adjustment <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Assets and liabilities				
Investment in a subsidiary	104,478	—	(104,478)	—
Other non-current assets	4,126,335	169,768	—	4,296,103
Cash and cash equivalents	1,700,465	69,532	(69,467)	1,700,530
Other current assets	5,888,683	196,270	(20,936)	6,064,017
Customer deposits	(638,577)	—	69,467	(569,110)
Other current liabilities	(4,122,385)	(312,402)	20,936	(4,413,851)
Other non-current liabilities	(1,849,388)	—	—	(1,849,388)
Net assets	5,209,611	123,168	(104,478)	5,228,301
Equity				
Attributable to owners of the Company				
Issued/paid up capital	995,900	168,830	(168,830)	995,900
Reserves	3,459,305	(45,662)	64,352	3,477,995
	4,455,205	123,168	(104,478)	4,473,895
Non-controlling interests	754,406	—	—	754,406
Total equity	5,209,611	123,168	(104,478)	5,228,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

42. BUSSINESS COMBINATION UNDER COMMON CONTROL
*(CONTINUED)***(a) Acquisition of interests in subsidiaries in the current year** *(Continued)***2012**

	The Group excluding YTO	YTO Foundry	Adjustment	Consolidated
	Foundry	Foundry		
	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)
Assets and liabilities				
Other non-current assets	3,545,531	144,446	—	3,689,977
Cash and cash equivalents	1,825,339	64,111	(118,154)	1,771,296
Other current assets	5,708,532	210,570	(42,356)	5,876,746
Customer deposits	(1,110,287)	—	63,646	(1,046,641)
Other current liabilities	(4,251,622)	(370,443)	98,865	(4,523,200)
Other non-current liabilities	(825,609)	—	—	(825,609)
Net assets	4,891,884	48,684	2,001	4,942,569
Equity				
Attributable to owners of the Company				
Issued/paid up capital	995,900	98,830	(98,830)	995,900
Reserves	3,270,906	(50,146)	100,831	3,321,591
Proposed final dividend	99,590	—	—	99,590
Non-controlling interests	4,366,396	48,684	2,001	4,417,081
	525,488	—	—	525,488
Total equity	4,891,884	48,684	2,001	4,942,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

42. BUSSINESS COMBINATION UNDER COMMON CONTROL
*(CONTINUED)***(a) Acquisition of interests in subsidiaries in the current year** *(Continued)***2011**

	The Group excluding YTO Foundry RMB'000	YTO Foundry RMB'000	Adjustment RMB'000	Consolidated RMB'000 (Restated)
Assets and liabilities				
Other non-current assets	3,239,881	122,387	—	3,362,268
Cash and cash equivalents	1,394,695	51,405	(11,350)	1,434,750
Other current assets	5,138,358	251,961	(56,091)	5,334,228
Customer deposits	(1,058,420)	—	11,349	(1,047,071)
Other current liabilities	(4,406,184)	(400,624)	55,742	(4,751,066)
Other non-current liabilities	(355,862)	—	—	(355,862)
Net assets	3,952,468	25,129	(350)	3,977,247
Equity				
Attributable to owners of the Company				
Issued/paid up capital	845,900	48,830	(48,830)	845,900
Reserves	2,568,669	(23,701)	48,480	2,593,448
	3,414,569	25,129	(350)	3,439,348
Non-controlling interests	537,899	—	—	537,899
Total equity	3,952,468	25,129	(350)	3,977,247

The above adjustments represent adjustments to eliminate the paid-up capital of YTO Foundry against the Group's investment cost in YTO Foundry, the cash deposit in YTO Finance by YTO Foundry, and current accounts between the Group and YTO Foundry as at 31 December 2011, 2012 and 2013, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

42. BUSINESS COMBINATION UNDER COMMON CONTROL
*(CONTINUED)***(a) Acquisition of interests in subsidiaries in the current year** *(Continued)*

The effect of the business combination of entities under common control, as described in above, on the Group's basic and diluted earnings per share for the period ended 31 December 2012 is as follows:

	Impact on basic earnings per share <i>RMB</i>	Impact on diluted earnings per share <i>RMB</i>
Reported figures before restatement	38.96 cents	38.96 cents
Restatement arising from business combination of entities under common control	<u>(2.69 cents)</u>	<u>(2.69 cents)</u>
Restated	<u><u>36.27 cents</u></u>	<u><u>36.27 cents</u></u>

The effect of business combination of entities under common control described above on the Group's net profit for the period ended 31 December 2012 is as follows:

	Group Net profit <i>RMB'000</i>
Reported figures before restatement	414,480
Restatement arising from business combination of entities under common control	<u>(24,094)</u>
Restated	<u><u>390,386</u></u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

42. BUSSINESS COMBINATION UNDER COMMON CONTROL
*(CONTINUED)***(b) Acquisition of interests in subsidiaries in the 2012**

In 2012, the Group acquired a 100% equity interest in YTO (Luoyang) Flag Auto-Body Company Limited ("YTO Flag") and YTO (Luoyang) Drive Axle Company Limited ("YTO Axle") from the Holding Company at considerations of approximately RMB158,789,000 and RMB224,618,000, respectively. As the Company, YTO Flag and YTO Axle are under the common control of the Holding Company immediately before and after the acquisition, the transactions were completed in the second half of the year, these transactions were accounted for as common control business combination, using merger accounting for all periods presented herein as if merger had been consummated since the inception of common control. In accordance with the requirements under merger accounting, the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012 has been restated on an "as if" combined basis. As a consequence, total revenue and profit for the year ended 31 December 2012 has been increased by approximately RMB722,916,000 and approximately RMB37,031,000 respectively.

43. RETIREMENT BENEFITS

- (a) The Group participates in various defined contribution retirement benefits schemes operated by the local municipal governments and is required to contribute 20% (2012: 20%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.
- (b) In addition, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on various factors, including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of these early retirees. The costs of early retirement benefits are recognised in the period in which employees opt for early retirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

44. CONTINGENT LIABILITIES

The contingent liabilities not provided for in the Group's and the Company's financial statements are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Financial guarantees to				
the facilities utilised by:				
— subsidiaries (note a)	—	—	124,000	87,541
— related companies (note b)	—	6,000	—	—
— third parties (note c)	433,100	751,500	433,100	751,500
	433,100	757,500	557,100	839,041

- (a) At 31 December 2013, the Company has provided guarantees of RMB Nil (2012: approximately RMB16,000,000) and approximately RMB182,100,000 (2012: approximately RMB71,541,000) to YTO Finance and certain banks, respectively, as security for credit facilities granted to certain subsidiaries. The facilities were utilised in aggregate to the extent of approximately RMB124,000,000 (2012: approximately RMB87,541,000).
- (b) At 31 December 2012, the Group has provided guarantees of approximately RMB14,000,000 to YTO Finance as security for credit facilities granted to related companies (fellow subsidiaries and associates of the Holding Company) and the facilities were utilised in aggregate to the extent of approximately RMB 6,000,000. At 31 December 2013, the Group has not provided guarantee to YTO Finance.
- (c) At 31 December 2013, the Group has provided guarantees of approximately RMB1,466,000,000 (2012: approximately RMB1,384,100,000) to certain banks in the PRC as security for credit facilities granted to certain customers. Such facilities were utilised in aggregate to the extent of approximately RMB433,100,000 as at 31 December 2013 (2012: approximately RMB751,500,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

45. PLEDGE OF ASSETS

The Group's bill payables and borrowings are secured by certain assets of the Group, the details are included in Notes 30 and 34 to the consolidated financial statements, respectively.

46. COMMITMENTS**(a) Capital commitments**

The Group and the Company had the following capital commitments as at the end of reporting period:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Contracted, but not provided for:				
Purchase of plant and machinery	<u>350,665</u>	<u>130,922</u>	<u>350,665</u>	<u>130,922</u>
Authorised, but not contracted for:				
Purchase of plant and machinery	<u>1,163,220</u>	<u>1,676,270</u>	<u>1,163,220</u>	<u>1,676,270</u>
	<u>1,513,885</u>	<u>1,807,192</u>	<u>1,513,885</u>	<u>1,807,192</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

46. COMMITMENTS (CONTINUED)**(b) Operating lease commitments — as lessor**

The Group leases out certain of its buildings (Note 16) under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Within one year	530	284	530	284
In the second to fifth years, inclusive	883	—	883	—
	1,413	284	1,413	284

None of the leases includes contingent rentals for the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

46. COMMITMENTS (CONTINUED)**(c) Operating lease commitment — as lessee**

The Group leases certain land, buildings, plant and machinery under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to two years with renewal options, and those for plant and machinery are for terms of one year with renewal options.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Within one year	458	428	458	4,295
In the second to fifth years, inclusive	<u>—</u>	<u>458</u>	<u>—</u>	<u>—</u>
	458	886	458	4,295

None of the leases includes contingent rentals for the years ended 31 December 2013 and 2012.

47. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the Parent, which is a state-owned enterprise established in the PRC. The Parent itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (revised), "Related Party Disclosure", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include the Parent and its subsidiaries (other than the Group), other government-related entities and subsidiaries ("other stated-owned enterprises"), other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and the Parent as well as their close family members. For the purposes of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

47. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year.

- (a) **The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows**

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Sale of raw materials, finished goods and components	(i)	144,701	194,413
Purchases of raw materials and components	(ii)	644,013	1,068,902
Purchases of utilities	(iii)	202,450	169,467
Fees paid for welfare and support services	(iv)	77,761	55,620
Fees paid for transportation services	(iv)	80,626	75,221
Research and development expenses paid	(v)	4,055	2,275
Fees paid for the use of land	(vi)	11,701	7,596
Rentals paid	(vii), (viii)	7,536	7,888
Rental income received in respect of buildings	(ix)	163	160
Purchases of plant and machinery	(x)	64,639	15,142
Acquisition of subsidiaries	(xi)	104,478	383,407
Interest income and discounted bill charges	(xii)	20,348	30,787
Interest paid for customer deposits	(xiii)	4,543	7,172
Research and development income received	(xiv)	124	6,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

47. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows *(Continued)***

Notes:

- (i) Pursuant to relevant agreements, the pricing in respect of the sale of raw materials, finished goods and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.
- (ii) Pursuant to the relevant agreements, the pricing in respect of purchases of raw materials and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.
- (iii) Pursuant to relevant agreements, the pricing in respect of purchases of utilities is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.
- (iv) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.
- (v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2012: 0.2%) of the Company's net annual turnover, and non-routine research and development service fees are determined separately under mutually agreed terms.
- (vi) Pursuant to the relevant agreements, the annual rental for the use of land is approximately RMB11,701,000 (2012: approximately RMB7,596,000(restated)) subject to a further land rental adjustment announced by the relevant state land administration authorities.
- (vii) Pursuant to the relevant agreements, the rentals of buildings were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 5% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.6% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

47. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows (*Continued*)**

Notes: (Continued)

- (viii) Pursuant to the relevant agreements, the rentals of plant and machinery were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 10% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.6% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.
- (ix) Pursuant to the relevant agreements, the rental income of buildings received is determined with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 5% of the net book value of the relevant premises). The lessee will also bear the related sales tax, currently at 5.6% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.
- (x) The purchases and sale of plant and machinery were conducted under mutually agreed terms.
- (xi) The acquisition of subsidiaries were conducted under mutually agreed terms. Please refer to Note 42 respectively for more details.
- (xii) The interest income related to the bills discounting service rendered by and the loans granted by YTO Finance to members of the Holding Group. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.
- (xiii) The interest paid for customer deposits relates to the customer deposits placed in YTO Finance by the Holding Company and its subsidiaries and associates. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.
- (xiv) Pursuant to relevant agreements, the pricing in respect of routine research and development services rendered is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

47. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at the end of the reporting period, the Holding Company has placed an aggregate amount of approximately RMB47,000,000 (2012: approximately RMB47,000,000) with YTO Finance to provide designated loans to the fellow subsidiaries and an associate of the Holding Company.

Since the credit risk is borne by the depositors, the related assets and liabilities of these lending transactions by the depositors are not included in the consolidated financial statements.

(ii) Material transactions carried out between the Group and the Parent and its subsidiaries during the year

During the year, the Group sold raw materials, finished goods and components of approximately RMB39,799,000 (2012: approximately RMB31,847,000 and purchased raw materials and components of approximately RMB46,847,000 (2012: approximately RMB6,955,000 from the Parent and its subsidiaries.

The terms of transactions are equivalent to similar transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (disclosed in Note 47(a)).

(c) Outstanding balances with related parties

- (i) Details of the Group's amounts due from/to the Holding Company, and the Group's loans to and deposits from the Holding Company as at the end of the reporting period are disclosed in Notes 23, 25, 26, 30, 31 and 32 to the consolidated financial statements.
- (ii) Details of the Group's deposits from its associates as at the end of the reporting period are included in Note 25 to the consolidated financial statements.
- (iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding Company) as at the end of the reporting period are disclosed in Notes 23, 25, 26, 30, 31 and 32 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

47. RELATED PARTY TRANSACTIONS (CONTINUED)**(d) Significant transactions with other government-related entities**

During the years ended 31 December 2013 and 2012, the Group's significant transactions with other state-owned enterprises (excluding the Parent and its subsidiaries) are a large portion of its sales of goods and purchases of raw materials, electricity, property, plant and equipment and services. In addition, substantially all restricted deposits, time deposits, cash and cash equivalents and borrowings as of 31 December 2013 and 2012 and the relevant interest earned or paid during the year are transacted with banks and other financial institutions controlled by the PRC government.

(e) Compensation of key management personnel of the Group

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Short term employee benefits	1,664	1,510
Post-employment benefits	282	240
Total compensation paid to key management personnel	<u>1,946</u>	<u>1,750</u>

Further details of directors' emoluments are included in above Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2013

48. COMPARATIVE AMOUNTS

Comparative figures have been adjusted to apply merger accounting for the business combination under common control, as explained in note 3.1 and 42 to the consolidated financial statements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

49. RECONCILIATION OF FINANCIAL INFORMATION PREPARED UNDER PRC GAAP TO HKFRS

Other than the differences in the presentations and classifications of certain financial statements captions, there is no material difference between the Group's financial position, total comprehensive income and consolidated cash flows as reported under PRC GAAP and HKFRSs.

50. SUBSEQUENT EVENTS

Pursuant to the Company's announcement dated 21 January 2014, the Company ("purchaser") and the Holding Company ("vendor") entered into an Acquisition Agreement, pursuant to which the Company has agreed to purchase the YTO Target Assets (including assets, liabilities and operations of the techniques and materials research centre and the calibration and testing centre of YTO) from the Holding Company at a total consideration of RMB36,865,930 (approximately HKD47,188,391).

Pursuant to the Company's published A-share announcement dated the same date, the Company agreed to sell 73% shareholding of Yituo (Luoyang) Agricultural Machinery and Tools Company Ltd. ("Zhong Cheng") at an open market price, the consideration should not be lower than the Zhong Cheng's asset value of RMB10,563,800 as at 31 October 2013.