



**昆明机床**  
KUNMING MACHINE TOOL

**沈機集團昆明機床股份有限公司**

**SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED**

(A sino-foreign joint stock limited company established in the People's Republic of China with limited liability)  
(Stock Code: 0300)

**Create Classic of  
High Precision Machine Made in China**

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Annual Report 2013

## IMPORTANT NOTICE

1. The Board of Directors, Supervisory Committee, Directors, Supervisors and Senior Management Officers of the Company have declared that the content of this annual report is true, accurate and complete with no false information, misleading statements or material omissions for which they jointly and severally accept legal responsibility.

2. Directors' attendance of the Board meeting

<b>Positions of names of directors who did not attend the board meeting</b>	<b>Name of directors who did not attend the board meeting</b>	<b>Reasons for not attending the board meeting</b>	<b>Appointee</b>
Director	Zhou Donghong	Office duty	Zhang Tao

3. The financial statements for the year ended 31st December 2013 of the Company prepared in accordance with Accounting Standards for Business Enterprises were audited by KPMG Huazhen (Special General Partnership) who has issued unqualified opinions in their auditors' report.

4. Wang Xing, Chairman, Zhang Zeshun, the person in charge of accounting affairs, and Li Hongning, head of accounting department (Accounting Supervisor), have declared that they assured for the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

5. Proposal on profit distribution or capitalization of capital reserve to increase share capital for the reporting period approved by the Board: Proposal on profit distribution for the year 2013: In accordance with the China Accounting Standards, in 2013, the Group recorded a net profit of RMB7,440,000. After deducting the transferring of RMB569,000 to surplus reserves, the accumulated profit available for distribution amounted to RMB650,275,000. In particular, the Company recorded a net profit of RMB5,690,000. After deducting the transferring of RMB569,000 to surplus reserves, the accumulated profit available for distribution amounted to RMB626,627,000. Since the loss of last year and the net profit for 2013 is less, in order to balance the development, the board of directors did not recommend the payment of a final dividend for 2013.

6. Any appropriation of non-operating fund by the controlling shareholder and its related parties?  
No

7. Any external guarantee provided not in compliance with the required decision-making procedures?  
No

# CONTENT

1.	DEFINITION AND MATERIAL RISK ALERT	3
2.	COMPANY PROFILE	4
3.	SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS	6
4.	DIRECTORS' REPORT	8
5.	SIGNIFICANT EVENTS	21
6.	CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	28
7.	DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF	32
8.	CORPORATE GOVERNANCE	43
9.	INTERNAL CONTROL	46
10.	CORPORATE GOVERNANCE REPORT	48
11.	FINANCIAL STATEMENTS	55
12.	DOCUMENTS AVAILABLE FOR INSPECTION	163

# DEFINITION AND MATERIAL RISK ALERT

## I. DEFINITION

"The Company", "Company", "Parent"	Shenji Group Kunming Machine Tool Company Limited
"Industry"	the machine tool industry in the PRC
"Horizontal machine"	horizontal boring and milling machine tool
"Floor-type machine"	floor-type boring and milling machine tool
"Machining center"	horizontal products machining center
"Gantry machine"	gantry boring and milling machine tool
"Company Law"	the Company Law of the People's Republic of China
"Securities Law"	the Securities Law of the People's Republic of China
"Accounting Law"	the Accounting Law of the People's Republic of China
"RMB", "RMB'000" and "RMB0'000"	RMB, RMB thousand and RMB ten thousand

## II. MATERIAL RISK ALERT

In this report, the Company has described in details the industry risks existed. For details on the risks that the Company may undertake, please refer to the discussion and analysis on the future development of the Company set out in Section IV Directors' Report.

# COMPANY PROFILE

## I. COMPANY INFORMATION

Name of the Company (Chinese)	沈機集團昆明機床股份有限公司
Abbreviated Name of the Company (Chinese)	昆明機床
Name of the Company (English)	SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED
Abbreviated Name of the Company (English)	kmtcl
Legal Representative	Wang Xing

## II. CONTACT PERSON AND CONTACT INFORMATION

	Secretary to the Board	Securities Affairs Representative
Name	Luo Tao	Wang Bihui
Correspondence address	23 Ciba Road, Kunming City, Yunnan Province	23 Ciba Road, Kunming City, Yunnan Province
Telephone number	86-871-66166612	86-871-66166623
Facsimile number	86-871-66166288	86-871-66166288
E-mail	luotao@kmtcl.com.cn	wangbh@kmtcl.com.cn

## III. BASIC INFORMATION

Registered address	23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code of registered address	650203
Business address	23 Ciba Road, Kunming City, Yunnan Province
Post code of business address	650203
Website	www.kmtcl.com.cn
E-mail	dsh@kmtcl.com.cn

## IV. PLACE OF INFORMATION DISCLOSURE AND DOCUMENT INSPECTION

Designated newspapers for publishing	China Securities Daily, Shanghai Securities News and Securities Times
Designated internet websites by CSRC for publishing annual report	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn
Annual report available at	Office Building, 23 Ciba Road, Kunming City, Yunnan Province

# COMPANY PROFILE

## V. SHARE LISTING

Class of Shares	Particulars of the Company's Shares		Stock Code
	Stock exchange	Short Name	
A Shares	Shanghai Stock Exchange	Kunming Machine	600806
H Shares	The Stock Exchange of Hong Kong Limited	Kunming Machine	0300

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

### 1. Basic information

There was no change in registration of the Company during the reporting period.

### 2. Related information of the first business registration of the Company

Please refer to the section "Overview of the Company" in 2012 Annual Report for the first business registration of the Company.

### 3. Changes in the controlling shareholders of the Company since the listing

On 25th December 2000, Xi'an Jiaotong University Industrial (Group) Incorporation ("Jiaotong Group") entered into Shares Transfer Agreement of Jiaoda Kunji High-tech Company Limited with the People's Government of Yunnan Province ("Yunnan Government") whereby Yunnan Government would transfer 71,052,146 state-owned shares of the Company to Jiaotong Group. The transaction was approved by [2001] No. 283 Cai Qi – the Approval of State-owned Shares Transfer of Jiaoda Kunji High-tech Company Limited issued by the Ministry of Finance of the PRC. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became the largest shareholder of the Company.

On 15th September 2005, Jiaotong Group and Shenyang Machine Tool (Group) Co., Ltd. ("Shenji Group") entered into a Share Transfer Agreement. Shenji Group agreed to purchase 71,052,146 shares of Jiaoda Kunji held by Jiaotong Group. The share transfer was approved pursuant to the "Written Reply regarding the Transfer of State-owned Shares of Jiaoda Kunji High-tech Co., Ltd." (Guo Zi Chan Quan [2006] No. 628) issued by State-owned Assets Supervision and Administration Committee of the State Council and the Opinion on Information Disclosure of the Acquisition of Jiaoda Kunji High-tech Co., Ltd. by Shenyang Machine Tool (Group) Co., Ltd. (Zheng Jian Gong Si [2006] No. 255) by China Securities Regulation Committee. On 1st December 2006, the register of equity transfer was completed and Shenji Group became the largest shareholder of the Company.

## VII. OTHER RELEVANT INFORMATION

Appointed Auditor of the Company (domestic)	Name	KPMG Huazhen (Special General Partnership)
	Address	8/F, Office Tower E.2, Oriental Plaza, No.1 East Chang An Ave, Beijing, China
	Signature of accountants	Peng Jing  Zhong Dan

# SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

## I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THE LATEST FIVE YEARS UP TO THE END OF THE REPORTING PERIOD

### 1. Principal accounting data

Unit: RMB

Principal accounting data	2013	2012	Increase/ Decrease as compared with the corresponding period last year (%)	2011	2010	2009
	As at the end of 2013	As at the end of 2012	corresponding period last year (%)	As at the end of 2011	As at the end of 2010	As at the end of 2009
Operating income	1,062,835,255.27	1,086,311,095.78	(2.16)	1,804,857,564.29	1,597,705,267.19	1,372,196,639.36
Net profit attributable to equity shareholders of the Company	7,440,164.34	(73,220,171.53)	(110.16)	54,567,125.16	178,324,801.52	215,847,994.25
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	(25,094,175.96)	(84,933,422.22)	(70.45)	51,897,930.57	167,747,132.71	193,475,241.55
Net cash flow from operating activities	(77,588,452.04)	7,571,011.30	(1,124.81)	654,756.70	129,272,783.34	105,749,466.18
Net assets attributable to equity shareholders of the Company	1,325,736,720.17	1,318,296,555.83	0.56	1,402,138,349.42	1,374,125,279.42	1,217,014,036.12
Total assets	2,793,270,204.96	2,548,752,225.10	9.59	2,558,664,361.12	2,247,730,361.63	2,024,433,625.56

### 2. Principal financial data

Principal financial data	2013	2012	Increase/ Decrease as compared with the corresponding period last year (%)	2011	2010	2009
Basic earnings per share (RMB/share)	0.014	(0.14)	(110)	0.10	0.34	0.41
Diluted earnings per share (RMB/share)	0.014	(0.14)	(110)	0.10	0.34	0.41
Basic earnings per share excluding extraordinary gains and losses (RMB/share)	(0.047)	(0.16)	(70.47)	0.10	0.32	0.36
Return on net assets (weighted average) (%)	0.56	(5.39)	Increased by 5.95 percentage points	3.93	13.75	19.06
Return on net assets based on net profit excluding extraordinary gains and losses (weighted average) (%)	(1.90)	(6.25)	Increased by 4.35 percentage points	3.74	12.98	19.25

# SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

## II. EXTRAORDINARY GAINS AND LOSSES AND AMOUNTS

Extraordinary gains and losses	<i>Unit: RMB</i>		
	Amount 2013	Amount 2012	Amount 2011
Disposal of non-current assets	1,123,606.41	(464,751.55)	1,393,630.93
Government grants recognized through profit and loss (excluding those having close relationship with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)	4,222,272.70	15,369,410.00	2,552,408.50
Gain on debt restructuring of accounts payable	21,472,524.42	–	–
Gain on transfer of accounts receivable	14,555,496.15	–	–
Debt restructuring	–	–	(905,350.26)
Other non-operating income and expenses besides items above	(2,630,478.37)	(781,197.64)	123,986.64
Effect of minority interests	(5,811,513.20)	(291,691.00)	(19,918.60)
Effect of income tax	(397,567.81)	(2,118,519.12)	(475,562.62)
Total	<u>32,534,340.30</u>	<u>11,713,250.69</u>	<u>2,669,194.59</u>



# DIRECTORS' REPORT

## I. THE BOARD'S DISCUSSION AND ANALYSIS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

In 2013, the global economic environment was seeking for new balance, while the domestic economy remained sluggish with overall slowdown. Under such difficult operating environment, the machine tools industry in the PRC continued the down trend from the past two years, and there was still no sign of recovery in sight. Meanwhile, there was dramatic change in the market demand structure of machine tools, which imposed far-reaching and profound impacts on the machine tools industry. The development in the industry highlighted the needs for structure adjustment, transformation and upgrading. For the first three quarters of 2013, the amount of imported machine tools decreased by 25%, while the average unit import price increased by 24%, reflecting the demand for upgraded machine tools from the domestic market. The technology of machine tools gradually transformed to manufacturing cell and sophisticated flexible manufacturing system with improved precision, efficiency, automation, intellectualization and networkization.

In 2013, the machine tools industry accelerated its pace of transformation and upgrading. Having underperformed for over two years, the industry came to have a more profound understanding of the lengthy and difficult process of transformation and upgrading. Thus, most of the enterprises in the industry took proactive initiatives to undergo adjustment and reform. Facing the unfavorable macro operating environment, the Company continued to carry out business model reform, and adhered to the strategy of transforming from a product manufacturer to an industrial service provider.

### 1. Analysis of principal activities

#### 1. Table of analysis of changes in relevant items of income statement and cash flow statement

Item	Unit: RMB		Percentage of change(%)
	2013	2012	
Operating income	1,062,835,255.27	1,086,311,095.78	(2.16)
Operating costs	837,116,958.98	880,453,359.74	(4.92)
Net cash flow from operating activities	(77,588,452.04)	7,571,011.30	(1,124.81)
Net cash flow from investing activities	(99,201,147.21)	(80,688,471.77)	22.94
Net cash flow from financing activities	226,762,076.74	(12,822,306.62)	(1,868.50)
R&D expenses	46,162,646.60	43,099,929.64	7.11
Impairment losses	(2,353,342.17)	52,262,313.67	(104.50)
Investment income	589,379.17	2,996,374.90	(80.33)
Non-operating income	41,746,283.98	15,558,232.30	168.32
Non-operating expense	3,002,862.67	1,434,771.49	109.29
Income tax	(660,370.34)	(12,944,178.86)	(94.90)

- Notes: A. Machine tool sales were greatly impacted by the macroeconomic downturn and the shrinking demand for machine tools. However, the Company's sales revenue of machine tool products recorded a slight increase as compared to that of 2012 due to our appropriate sales strategy. Xi'an Ser, a subsidiary of the Company, registered a decrease in turbo machines business as compared to 2012. As its share in our income is small, the operating income of the Company only declined slightly;
- B. The Company achieved cost reduction by strengthening cost control through measures such as shortening the assembly cycle of machine tools, substantially reducing the inventory of goods in progress, further shortening the distance of materials movement and reducing the external processing volume;
- C. The decrease in net cash flow from operating activities was due to the decrease in receiving payments from sales resulting from the Company's reduction of proportion of advances from customers in view of the intense lending market in order to seize market share and promote sales, and due to the increase of value-added tax for the period as compared to the corresponding period of last year;
- D. The increase in net cash flow from investing activities was attributable to the increase in the investment in construction projects of Yanglin Base and the decrease in cash received from security deposits;
- E. The increase in net cash flow from financing activities was due to the addition of short-term loans for working capital use for the period;
- F. The slight increase in R&D expenses was due to our continuous investment in the R&D of major national special projects, national "863 Program" and new products independently researched and developed by the Company for the period;

## DIRECTORS' REPORT

- G. Impairment losses decreased because the Company put more efforts in the collection of accounts receivable for prior years, especially in sorting out and collecting accounts receivable with longer ageing period, so as to reverse the provision for bad and doubtful debts during the reporting period;
- H. The decrease in investment income was mainly due to the decline in net profits of Xi'an Ruite (an associate of the Company) for the period and the recognition of investment income from disposal of Fujian Kunji in 2012;
- I. Non-operating income increased because the Company transferred the creditor's rights in accounts receivable, carried out debt restructuring regarding the accounts payable and realized the related gains during the reporting period (see notes for details);
- J. The increase in non-operating expenses was attributable to the recognition for the period of RMB2,375,000 which was the advance paid by Yancheng Xinde Oil Machine Company and the court made a ruling that the Company should refund;
- K. The decrease in income tax income as compared with previous period was due to the reversal of deferred tax assets as a result of reversal of impairment losses for the reporting period.

### 2. Revenue

- (1) Analysis of factors causing changes in operating income  
Affected by market factors, price factors and inventory factors, the changes in operating income of the Company were mainly attributable to the sales revenue of the machine tool products. Revenue from product services and machine processing businesses had insignificant impact on the overall revenue of the Company.
  - 1) Market factors: due to macroeconomic control, the economy growth rate slowed down, the investment in fixed assets decreased, the downstream industry was depressed, and there were no special demand highlights; the incremental demand for machine tools decreased and the stagnation effect after a high growth of the industry emerged. Orders for machine tools decreased, coupled with delayed or suspended pickup of ordered machine tool products by certain customers who suffered from poor financial conditions and under-utilization of production capacity, resulting in an increase in inventory and a decrease in sales revenue.
  - 2) Price factors: The unit selling price of machine tools was lowered from that of last year as the Company focused to capture market share and seize orders in light of intensified market competition. Meanwhile, being affected by the market environment, the Company also recorded a decrease in sales volume, resulting in a decrease in sales revenue.
  - 3) Inventory factors: Delayed or suspended pick-up of goods by customers resulted in an increase in machine tool products inventory, which led to increased inventory capital and affected re-investment in production and operation. In order to reduce inventory, some finished products were sold at a discounted price, resulting in a decrease in sales revenue.
- (2) Analysis of factors affecting the Company's product income mainly from physical sales  
The products of the Company were mainly sold through physical sales. Therefore, same with the operating income, the sales revenue of the Company was also affected by the above factors.
- (3) Analysis of orders  
The total contract amount of orders signed in 2013 amounted to RMB826 million, of which orders for CNC machine tools accounted for 73.22%. Floor-type boring machine tools orders constituted a majority of the CNC product orders. The amount and proportion of orders for floor-type boring machine tools decreased over last year due to the market and competition factors. The amount of orders for the gantry boring and milling machine tools recorded an increase as compared to that of last year, while the proportion of such orders in the total order amount remained the same with last year.
- (4) Analysis of impacts of new products and new services  
Given that the new product – high precision horizontal products machining center was still at the marketing stage, the new product recorded a small sales volume and accounted for a tiny proportion of the overall sales volume.
- (5) Information on the major customers  
Our customers include intermediate traders and end users. As at 31st December 2013, the total sales revenue of the top 5 customers (end users) amounted to RMB145 million. The top 5 customers accounted for 13.66% of the total sales revenue for the year.

## DIRECTORS' REPORT

### 3. Costs

#### (1) Changes in costs of principal activities

Unit: RMB'000

Item	2013	Proportion (%)	2012	Proportion (%)	Increase/Decrease (%)
Raw materials	586,393.00	70.05	560,910.18	63.71	4.54
Direct labor costs	100,884.38	12.05	135,968.59	15.44	(25.8)
Benefit expenses	35,619.27	4.25	39,965.96	4.54	(10.88)
Fuel and power	9,856.70	1.18	12,726.91	1.45	(22.55)
Manufacturing costs	54,245.67	6.48	45,570.19	5.18	19.04
External processing expenses	50,117.94	5.99	85,311.53	9.68	(41.25)
Total	837,116.96	100.00	880,453.36	100.00	(4.92)

Note: During the year, as its production capacity was not fully utilized, the Company reduced the scale of external processing, but the manufacturing costs increased and accounted for a larger proportion due to the rise of the costs of other materials in auxiliary production; during the year, the working hours of production personnel decreased, resulting in the decrease of the labor costs of the product costs and the decrease of the provisions for benefit expenses.

#### (2) Major suppliers

The total purchase from the top 5 suppliers for 2013 amounted to RMB86,385,000, representing 14.90% of the total purchase for the year.

### 4. Expenses

Item	2013	2012	Change	Percentage of change (%)
Selling and distribution expenses	81,664,578.30	96,628,154.07	(14,963,575.77)	(15.49)
General and administrative expenses	162,670,709.85	160,374,456.94	2,296,252.91	1.43
Financial expenses	7,118,065.55	1,797,725.19	5,320,340.36	295.95

Note: during the year, the selling and distribution expenses decreased to some extent as the Company enhanced its control over the freight and its management and control over travel expenses and operating expenses incurred by the salespeople; meanwhile, the financial expenses increased due to relatively large new loans for the period to meet the Company's demands for working capital and the project construction of Yanglin Bases well as the increase of the financing costs arising from tight market liquidity.

### 5. R&D expenses

#### (1) Table of R&D expenses

Unit: RMB

R&D expenses expensed for the current period	46,162,646.60
R&D expenses capitalized for the current period	—
Total R&D expenses	46,162,646.60
Percentage of total R&D expenses to net assets (%)	3.36
Percentage of total R&D expenses to operating income (%)	4.34

#### (2) Explanation:

In 2013, the Company did not have any R&D projects with interest capitalization, all the R&D expenses of which incurred during the year were expensed, mainly including major national special projects such as "TGK46100 high precision CNC horizontal jig boring machine tools" and "technology innovation platform for precision horizontal and vertical products machining center", national "863 Program" and new products independently researched and developed by the Company.

## DIRECTORS' REPORT

### 6. Cash flow

Item	2013	2012	Amount increase/decrease	Increase/Decrease (%)
Net cash flow from operating activities	(77,588,452.04)	7,571,011.30	(85,159,463.34)	(1,124.81)
Net cash flow from investing activities	(99,201,147.21)	(80,688,471.77)	(18,512,675.44)	22.94
Net cash flow from financing activities	226,762,076.74	(12,822,306.62)	239,584,383.36	(1,868.50)

Analysis:

In view of the intense lending market due to the downturn in macro-economy and machine tool industry, the Company reduced the proportion of advances from customers in order to seize market share and promote sales, which led to the decrease in receiving payments from sales. Meanwhile, in order to enhance the production capacity and product performance of the Company and continue to invest in the project construction of Yanglin Base, the net cash flow from investing activities continued to record net outflows. To satisfy the demands for the working capital for production and operation and the expenses for the project construction of Yanglin Base, the Company reinforced its financing efforts and obtained more bank loans for working capital on credit and by other means, resulting in a net increase in cash and cash equivalents during the reporting period.

In order to increase market share and promote sales, the Company lowered payment percentage to an appropriate extent for some long-term distributors in 2013, resulting in a decline of overall average payment percentage of the Company from 90%-95% to 60%-80%. The decrease in receipts from product sales led to a decline in cash generated from operating activities.

This will not lead to failure in collection of trade receivables when payment is due as the Company only lowered payment percentage for the long-term distributors and reputable customers and has stepped up efforts in payment collection management. In response to the measure taken by the Company in 2013 to promote sales by lowering payment percentage, the Company will adjust its sales policy, revise and refine sales management measures in a timely manner, enhance management of credits to the customers and distributors and reinforce reconciliation, management and collection of trade receivables.

### 7. Analysis of material changes in major financial data during the reporting period

Unit: RMB

Item	Closing balance	Opening balance (same period last year)	Amount increase/decrease	Increase/Decrease (%)
Total assets	2,793,270,204.96	2,548,752,225.10	244,517,979.86	9.59
Operating profit	(30,078,500.54)	(109,363,734.67)	79,285,234.13	(72.50)
Net profit attributable to equity shareholders of the Company	7,440,164.34	(73,220,171.53)	80,660,335.87	(110.16)

Analysis:

during the reporting period, the Company enhanced sales of products and recorded a slight decrease in operating income as compared to last year; reduced the production cost through measures such as shortening the assembly cycle of machine tools, substantially reducing the inventory of goods in progress, further shortening the distance of materials movement and reducing the external processing volume; put more efforts in the collection of accounts receivable for prior years so as to reverse part of provision for bad and doubtful debts; transferred the creditor's rights in accounts receivable, carried out debt restructuring regarding the accounts payable and realized the related gains. The Company turned losses into profits.

# DIRECTORS' REPORT

## 8. Others

### **Explanation on progress of development strategies and operating plan**

In order to achieve the development strategies of the Company, the Company focused on the following tasks in 2013:

1. To transform towards industrial service provider

In October 2013, the Company started preparatory work for the transformation from business unit system towards product line system, and took the lead in setting up a horizontal products machining product line and a gantry product line. The planning blueprint of the Company's product lines was basically prepared in November, and the Kunji product line structural scheme based on 13 major regional markets was basically determined in December. The Company piloted marketing region management mode and implemented the regional general manager responsibility system. In 2013, the Company implemented product major category-oriented business unit system, laying the foundation for the implementation of the organizational structure of the product line system.

2. To enhance the operation capacity centering on the market

- (1) Decentralization. The Company handed over the market dominance to each region, implemented the market-oriented guideline and authorized the frontier personnel.
- (2) Market segments. The Company introduced first-grade agents, realizing full coverage in major regional markets in China.
- (3) Strength "development". The advantageous resources of the enterprise were preferably allocated to the first-tire markets.
- (4) Focus. The Company established user engineering center, focusing on the user process and full set solutions. Utilizing lean improvement, the Company connected production and sales more closely.

3. To improve technology and quality simultaneously

- (1) To position on the upgraded development of product structure: in order to achieve late-development technologies and market advantages, the Company established the horizontal products machining team and the gantry team and realized the definition and development of the next generation of horizontal products machining and gantry products.
- (2) To promote technical R&D: in August 2013, KMTCL postdoctoral workstation was established. In 2013, the 8 major national special science and technology projects undertaken or participated by the Company all achieved expected results.
- (3) To extend quality control: the Company enters into quality agreements with the suppliers and established the supplier exit system; the Company extended the quality management of the suppliers by providing them with the processes and management technologies of Kunji and guided the transformation.
- (4) To achieve strength from brand development: in 2013, KMTCL won the "First Government Quality Award of Yunnan Province"; the "Kunji" brand was recognized as "China Famous Trademark".

# DIRECTORS' REPORT

## 2. Segment, product and regional operation

### 1. Analysis of principal activities by products

Unit: RMB

Analysis of principal activities by segments						
Business segments	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Machine tools	915,995,230.62	729,393,037.66	20.37	1.91	0.63	Increased by 1.01 percentage points
Turbo machines	146,840,024.65	107,988,954.20	26.46	(21.71)	(30.62)	Increased by 9.45 percentage points

Analysis of principal activities by products						
Products	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Horizontal boring and milling machine tools	266,824,880.56	260,325,765.18	2.44	15.36	15.34	Increased by 0.44 percentage points
Floor-type boring and milling machine tools	283,401,970.91	211,872,658.40	25.24	(6.68)	(8.96)	Increased by 2.24 percentage points
Table-type boring and milling machine tools	140,722,085.95	102,254,276.34	27.34	2.45	(3.97)	Increased by 5.34 percentage points
Horizontal products machining center	26,889,802.86	14,029,729.34	47.83	(73.40)	(78.52)	Increased by 12.83 percentage points
Gantry boring and milling machine tools	81,398,290.62	62,451,863.57	23.28	(1.19)	(9.24)	Increased by 7.28 percentage points
Turbo machines	146,840,024.65	107,988,954.20	26.46	(21.71)	(30.62)	Increased by 9.45 percentage points
Others	116,758,199.72	78,458,744.83	32.80	171.90	204.64	Decreased by 7.02 percentage points

Notes:

The gross profit margin of machine tool business increased by 1.01 percentage points. The slight increase was mainly due to the Company's reduction of production cost of machine tools by strengthening cost control through measures such as shortening the assembly cycle of machine tools, substantially reducing the inventory of goods in progress, further shortening the distance of materials movement and reducing the external processing volume. The gross profit margin of turbo machine business in 2013 increased by 9.45% as compared to the previous year, mainly contributable to the increase of the proportion of air compressor with a higher gross profit margin to the total sales revenue of the products sold by the Company during the reporting period as compared to the previous year, and the decrease of the proportion of blast furnace blower with a lower gross profit margin to the total sales revenue as compared to the previous year due to the country's policy of limiting the production of steel; the air compressor, whose R&D are for the transformation of product structure, is becoming mature after years' R&D and the manufacturing costs per air compressor decreased to some extent as compared to the previous years, which is also the main reason for the increase of gross profit margin.

# DIRECTORS' REPORT

## 3. Assets and liabilities

### 1. Table of assets and liabilities

*Unit: RMB*

Item	Closing balance for 2013	Percentage of total assets (%)	Closing balance for 2012	Percentage of total assets (%)	Percentage change in
					closing balance (%)
Cash at bank and on hand	181,805,670.00	6.51	98,887,040.73	3.88	83.85
Bills receivable	193,617,520.47	6.93	74,194,825.88	2.91	160.96
Accounts receivable	421,649,692.09	15.10	296,885,249.95	11.65	42.02
Prepayments	49,867,554.97	1.79	38,170,658.92	1.50	30.64
Inventories	838,202,834.59	30.01	1,011,927,770.40	39.70	(17.17)
Construction in progress	299,490,159.28	10.72	182,359,702.75	7.15	64.23

Item	Closing balance for 2013	Percentage of total liabilities (%)	Closing balance for 2012	Percentage of total liabilities (%)	Percentage change in
					closing balance (%)
Short-term loans	299,279,000.00	21.07	105,000,000.00	42.76	185.03
Bills payable	67,742,506.00	4.77	28,693,005.00	2.42	136.09
Employee benefits payable	12,787,886.41	0.90	25,500,401.68	2.15	(49.85)
Taxes payable	24,202,207.26	1.70	12,322,840.16	1.04	96.40
Other payables	121,768,252.44	8.57	73,419,209.14	6.19	65.85
Special payables	20,947,539.29	1.47	15,167,565.87	1.28	38.11
Other non-current liabilities	104,702,441.79	7.37	66,773,920.91	5.63	56.80

Notes:

- A. The increase in cash at bank and on hand was due to the increase in short-term loans for the period;
- B. The increase in bills receivable was due to the increase in receiving payments from sales settled by way of bills receivable and the decrease in discounted amount of bills for the period;
- C. The increase in accounts receivable was mainly because the Company put more efforts into sales and reduced the proportion of advances from customers for the period;
- D. The increase in prepayments was due to the amount prepaid for raw materials for the period;
- E. The decrease in inventories was attributable to the adoption of measures for the period such as reducing the proportion of advances from customers, which accelerated sales and delivery of goods;
- F. The increase in construction in progress was due to our purchase of double column portals for cross rail profile of 2000 mm from SCHIESS GmbH and our investment in the construction of Yanglin Base project;

## DIRECTORS' REPORT

- G. The increase in short-term loans was due to the increase in short-term loans for working capital use for the period;
- H. The increase in bills payable was due to the increase in the amount of bank acceptance notes issued by the Company to pay the suppliers as compared to that of previous period;
- I. The decrease in employee benefits payable was attributable to the write-down of additional provision of year-end bonuses for the period;
- J. The increase in taxes payable was due to the increase in value-added tax payable in December 2013;
- K. The increase in other payables was due to the increase in the payments for the construction of Yanglin Base project;
- L. The increase in special payables was due to the increase in tax refund for import VAT received from customs for the period;
- M. The increase in other non-current liabilities was attributable to government grants in respect of technology innovation platform for precision horizontal and vertical products machining center and other projects received for the period.

#### 4. Analysis of core competitiveness

##### 1. *Technical advantages of products:*

Horizontal boring and milling machine tool and CNC floor-type boring and milling machine tool series products are the main flagship and core products of the Company. Horizontal boring and milling machine tools series are the Company's traditional products. The technologies of the products are mature and the Company has strived to upgrade the products in recent years. CNC floor-type boring and milling machine tool series products were commercialized soon after their successful R&D. Through years of continuous improvement to enhance the technical level and technology content of the products, especially the breakthrough in simultaneous motion of five axes, the overall level of this series ranked top in China.

##### 2. *Technical R&D advantages:*

The Company has a national level enterprise technology center, representing the Company's competitive strength and important position in the precision machine tools area in China, which will play an important role in further enhancement of the Company's technological innovation, improvement of R&D capability and market competitiveness of products, and achieving sustainable development. The Company was the main in-charge unit for 4 major national special science and technology projects, 1 project of "863 Program", and a participant to 4 major national special science and technology projects, and 2 projects of "863 Program".

In order to leverage on its technical strengths in precision manufacturing, speed up the adjustment of product structure and narrow the gap with international advanced level, KMTCL has reached an agreement with SCHIESS GmbH, a Germany enterprise, to introduce its proprietary technology for large and heavy-duty, high-precision CNC gantry boring and milling machine tools, CNC vertical lathes and components (milling head), so as to lay the technology and product bases for the future strategic development of KMTCL.

##### 3. *Precision manufacturing advantages:*

The motto of "to take innovation as the priority, take quality as the foundation and take precision as the soul" is the concentrated reflection of the spirit of Kunji. For example, the THM46100 high precision horizontal products machining center developed by the Company in recent years is a latest researched and developed product with high torque, high precision and high speed, which is highly automatic and enjoys fully independent intellectual property rights. Most of the precision parameters of this product have reached the advanced world levels; the tool machine is capable to process high precision products at high speed in the case of heavy load and high torque and is the latest research result of the generic technology such as structure optimization, heat distortion, vibration control etc., providing powerful technology support to the outstanding performance indicators and high reliability of the machine tools.



# DIRECTORS' REPORT

## 5. Investing activities

### 1. Entrusted investment of non-financial entities and investment in derivatives

- (1) Entrusted investment  
There was no entrusted investment of the Company during the year.
- (2) Entrusted loan  
There was no entrusted loan of the Company during the year.

### 2. Information of major subsidiaries and invested companies

Name	Place of registration	Scope of business	Registered capital RMB'0000	Investment proportion	Nature	Date of investment	Relationship with the Company
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Xi'an city	Design, development and sales of turbo machines, energy saving sintering fans, compressor equipment, research and re-modification of imported equipment and its parts, automated control system engineering, CNC engineering, mechanical and chemical equipment, meter technology development, whole machine production and sales	5,000	45.00%	Limited liability	2001.12	Subsidiary
Kunming Kunji General Machine Co., Ltd.	Kunming city	Development, design and sales of machine tool products and accessories	300	100.00%	Limited liability (wholly owned by legal person)	2007.10	Subsidiary
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	Kunming city	Development, design, production and sales of self-produced machine tool series products and accessories; development of high-tech products, transfer of self-developed technology, provision of technical services and technical advisory; provision of repairs and processing of machine tool products for third parties	5,000,000 Euros	50.00%	Limited liability	2005.4	Jointly controlled enterprise
Changsha Ser Turbine Machinery Co., Ltd. ("Changsha Ser")	Changsha city	Production and sales of centrifugal compressors, centrifugal blowers, sintering fans and its accessories	1,000	100%	Limited liability	2004.01	Subsidiary of Xi'an Ser
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Xi'an city	Laser prototyping machine	6,000	23.34%	Limited liability	2006	Associate

### 3. Use of proceeds from non-raised fund

During the reporting period, there were no proceeds from non-raised funds.

# DIRECTORS' REPORT

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

### 1. Landscape of competition and development trend of the industry

According to the industry statistics, in 2013, the import amount of machine tool products of China recorded a double-digit decrease. In the first three quarters, the accumulated import amount of machine tool products decreased by 19.3%, among which the import amount of metal processing machine tools fell by 24.0%. Among the metal processing machine tools, the import amount of metal cutting machine tools decreased by 25.7%. It is the first time that the import amount of machine tools recorded a double-digit decrease for the recent years except for 2009, the year affected by the global financial crisis in 2009. Meanwhile, many significant changes took place in the structure of China's imported machine tool products equipment products, with a significant increase in the demand of medium to high end CNC machine tools of high-precision, high-speed, efficiency and intelligence in the past two years. Europe, USA, Japan, South Korea and the Taiwan region of China are the major sources of the import of machine tools of China, with the products from these regions accounting for over 95% of the total import volume of China. But since 2013, the products from different regions have started to differentiate from each other. In particular, the Europe and America series, represented by Germany and Italy, achieved the most glamorous performance by achieving a growth of 10% despite the unfavorable trend; the share of Japan fell by over 50%, representing the most dramatic decrease; and the share of South Korea and Taiwan fell by 20%.

The "Twelfth Five-Year" development strategy of the high-end equipment manufacturing industry, which forms an important part of the strategic emerging industry, is to achieve key breakthroughs in five major fields, namely aviation equipment, satellite and applications, rail transportation equipment, marine engineering equipment and intelligent manufacturing equipment. The proposed goal published by the Plan is that the sales value of the high-end equipment manufacturing industry will account for over 20% of the equipment manufacturing industry and it is estimated that the annual sales value will reach RMB6 trillion.

In 2014, the demand of the entire market will continue to decrease, but the demand structure will be increasing. The so-called demand structure is reflected by high-end products. According to the statistics in 2013, the unit import price of high-end CNC products increased by approximately 20%. As such, in the future market competition, high-end equipment will be a breakthrough for the enterprises.

During the Twelfth Five-Year Plan Period, China will continue to invest and step up the investment in high-end CNC machine tools and fundamental manufacturing equipment, and the major national special science and technology projects will attract capital of over RMB10 billion. This will not only promote the market development of China's domestic CNC machine tools, the CNC systems and the relevant functional components, but also provide an excellent opportunity for the domestic CNC system manufacturers to continuously develop their own technologies and increase market shares. With the development the industry and the upgrades of competition, the best choice for the long-term development of an enterprise is to increase of technical elements of its products, own its own patents and designs and focus on its brand development and marketing. The development of China's machine tool industry shall adhere to the guidance of market demand, take the development of CNC machine tools as the guide, the main machine as the leader, the improvement of the auxiliary products as the basis, try to realize the transformation toward the manufacturing of sophisticated products as soon as possible, and gradually transforms to the machining units and cutting-edge flexible manufacturing systems on the basis of the improvement of accuracy, efficiency, automation, intelligence and network.

# DIRECTORS' REPORT

## 2. Development strategies of the Company

In 2014, the Company will spare no effort to carry out comprehensive transformation, with an aim to enhance the quality of economic operation and promote the market competitiveness of the brand. By further refining market segmentation, conducting product optimization and upgrading and implemented different market strategies in light of various regions, and driven by the new organization model under the market-oriented product line structure, the Company will strive to establish the leading position of its products.

(1) *“Transformation” in terms of organization – transforming into an industrial service provider*

Driven by market, to establish a new organization structure under the product line model.

(2) *“Transformation” in terms of product structure – leading the medium and high-end markets and promoting upgrade of product structure*

– Leveraging on the specific advantage of the Company with advanced technology and sophisticated production, to develop a full set of horizontal products and aggressively explore the domestic market for horizontal products, and make strenuous efforts to define the new generation of gantry machines with customized design, so as to establish its new advantages in the gantry machine market.

– To exploit the domestic high-and-medium end markets, and to explore the large markets in the automobile and aviation industries;

– Adhering to the strategy of “walking with two legs”, to reinforce and expand its export business and increase its market shares in the overseas markets.

(3) *“Transformation” in terms of operation – enhancing the quality of economic operation*

– To establish 13 regional sales platforms with high quality and efficiency, so as to drive further optimization and upgrade of product lines and make rapid response to market change.

– To operate on the regional platform under comparable companies model, while a market-oriented operation model will be implemented within the company.

– As a primary strategy, financial management is to be implemented in all departments of the Company that is based on budget and focuses on cost control.

– Leveraging on the brand and technology advantage, to develop cost-effective solutions for our customers, so as to improve our market share and profitability.

– To carry out all-round reform to steadily improve product quality and achieve low-cost production operation.

## DIRECTORS' REPORT

### (4) "Transformation" in terms of management – improving efficiency

- all resources of the Company shall be used by its staff to achieve targeted results. Without the human efforts to implement all these new ideas, concepts and models, it would be impossible for the Company to achieve new targets, development and accomplishments.
- to establish in-house talent management system to select candidates who are most fit for the positions and let people demonstrate their talents. In 2014, the Company will facilitate the implementation of service localization and provision of pre-sale technical support through talent recruitment and internal training.
- to streamline the organization and personnel of the Company, with an aim to solve the legacy problem of excessive workforce by development of new business and reassignment by competition, so as to improve the overall productivity.

### 3. Operating plan

The business targets for 2014: to achieve a revenue of RMB1.25 billion and an aggregate profit of RMB6.73 million.

### 4. Potential risks

From the external point of view, the key expected targets for economic and social development in 2014 are: GDP is projected to grow by 7.5% and China will work hard to raise the quality and returns of development and promote industrial upgrading, which is a major adjustment to the development mode of the national economy. When the overall economic environment and industry is involved, an enterprise will inevitably make active and proactive adjustments. Along with such adjustments, the enterprise will be exposed to bigger market pressures and challenges. The enterprise need to deal with the problem how to obtain the survival opportunity and development space when exposed to the market forced mechanism.

From the internal point of view, the key to the successful transformation of an enterprise is how to grasp its business dynamics, how to reasonably and effectively make the planning and rational allocation of strategic resources; how to make structural adjustments in order to meet the development trend of the machine tool industry; and how to make some achievements in terms of technological progress and innovation management.

## III. EXPLANATION OF THE BOARD ON THE "NON-STANDARD AUDIT REPORT" ISSUED BY THE AUDITOR

### 1. Explanation of the Board and the Supervisory Committee on the "non-standard audit report" issued by the auditor

✓ Not applicable

### 2. Analysis and explanation of the Board on the reasons for and impacts of the changes in accounting policies, accounting estimates and auditing methods

The Company has adopted following new or amended standards issued by MOF since 1 January 2013: CAS No.9 – Employee Benefits, CAS No.30 – Financial Statement Presentation, CAS No.33 – Consolidated Financial Statements, CAS No.39 – Fair Value Measurement and CAS No.40 – Joint Arrangements.

The aforementioned changes in accounting policies have no effect on the financial statements of the Company and the Group both in 2013 and 2012.

### 3. Analysis and explanation of the Board on the reasons for and impacts of corrections of material accounting errors of prior periods

✓ Not applicable

# DIRECTORS' REPORT

## IV. PROPOSAL ON PROFIT DISTRIBUTION OR CAPITALIZATION OF CAPITAL RESERVE TO INCREASE SHARE CAPITAL

### 1. Formulation, implementation and adjustment of cash dividends policy

None

### 2. If the Company records profits and the parent company records positive undistributed profits but there is no proposal for cash dividends during the reporting period, the Company shall specify the reasons for doing so and the usage of the undistributed profits and disclose the usage plan in detail

Since the loss of last year and the profit of this year is less, in order to balance the development, the Board of directors did not propose to distribute a final dividend for 2013.

### 3. Profit distribution or capitalization of capital reserve to increase share capital and distribution of dividends of the Company for the preceding three years:

*Unit: RMB'000*

Year	Number of bonus shares for every 10 shares (share)	Amount of dividends for every 10 shares (Yuan) (tax inclusive)	Number of shares converted for every 10 shares (share)	Amount of cash dividends (tax inclusive)	Net profits attributable to the shareholders of the listed Company in the consolidated financial statement for the year of distribution	Percentage of the net profits attributable to the shareholders of the listed Company in the consolidated financial statement (%)
2013	0	0	0	0	7,440	0
2012	0	0	0	0	(73,220)	0
2011	0	0.20	0	10,621	54,567	19.46

## V. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

### 1. Fulfillment of social responsibility

(See the report on social responsibilities of the Company published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 29th March 2014 for details).

## SIGNIFICANT EVENTS

### I. PRE-EMPTIVE RIGHTS

Since there is no provision for pre-emptive rights under the Company's Articles of Association, the Company did not have any arrangement for the pre-emptive rights scheme during the reporting period.

### II. WARRANTS AND OTHERS

Neither the Company nor any of its subsidiaries issued any warrants, convertible securities, options or other securities with similar rights, nor did any person exercise any rights as stated above.

### III. PURCHASE, SALE AND REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any securities issued by the Company during reporting period.

### IV. BANK LOANS, OVERDRAFT AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings as at 31st December 2013 are set out in the notes to the financial statements.

### V. FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP

For the year ended 31st December 2013, the Group had no long-term borrowings and the Group had borrowing due within one year of RMB299,279,000. The Group maintains a sound credit condition with a high margin product mix and has sufficient cash flow for future repayment of liabilities due.

As at the end of 2013, the shareholders' equity of the Group was RMB1,372,916,000 compared to RMB1,363,590,000 as at the end of 2012.

### VI. GEARING RATIO

The shareholders' equity to debt ratio of the Group for 2013 was 0.97, compared to 1.16 in 2012.

### VII. CONTINGENT LIABILITIES

Details of contingent liabilities of the Company as at 31st December 2013 are set out in the notes to the financial statements.

## SIGNIFICANT EVENTS

### VIII. MAJOR LITIGATION, ARBITRATION AND MATTERS COMMONLY QUESTIONED BY MEDIA

The Company signed a sales contract with Yancheng Xinde Oil Machine Company ("Xinde Machine") in June 2002 for sales of four machine tools with an aggregate amount of approximately RMB11.9 million. The four related machine tools have been delivered to Xinde Machine before October 2003. In June 2009, Xinde Machine filed a lawsuit against the Company alleging that the goods delivered by the Company were unqualified and sought for return of goods, refund of advances paid of RMB10.7 million and payment of penalty and compensation of RMB0.3 million and RMB3.7 million respectively. The Company has denied the claim and filed a counter claim against Xinde Machine alleging that it was unreasonable for Xinde Machine to claim for return of goods after use of the Company's products for more than 6 years and requesting Xinde Machine to repay the unpaid amount of RMB1.3 million for the goods. The Intermediate People's Court of Yancheng City made a ruling in relation to the aforesaid litigation on 18th May 2012. It was ruled that the Company should refund the advances paid of RMB2,375,000 and bear the costs of the action in the amount of approximately RMB26,000. The Company refused to accept the ruling and appealed to the Higher People's Court of Jiangsu Province on 20th July 2012. The case has entered the second-instance stage.

At the beginning of 2014, the Company received the Civil Judgement from Higher People's Court of Jiangsu Province which dismissed the appeal and upheld the original judgement.

### IX. EMBEZZLEMENT OF FUNDS AND REPAYMENT OF DEBT DURING THE REPORTING PERIOD

✓ Not applicable

### X. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

None

### XI. ASSETS TRANSACTIONS AND MERGER OF COMPANIES

✓ Not applicable

### XII. EQUITY INCENTIVES OF THE COMPANY AND ITS EFFECT

✓ Not applicable

## SIGNIFICANT EVENTS

### XIII. RELATED PARTY TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

1. Kunming Kunji Group Co., Ltd. was authorized by the People's Government of Yunnan Province to succeed the rights and obligations of the "The Land Use Rights Rental Agreement" and "The Premise Rental Agreement" signed between the People's Government of Yunnan Province and the Company on 12th November 2001. On 31st January 2011, the Company entered into an agreement for rental adjustment with Kunming Kunji Group Co., Ltd.. The annual rent of land use rights was adjusted to RMB4,457,340.00, and the annual rent of premises was adjusted to RMB792,660.00. The adjusted annual rent was effective from 12th November 2010 to 11th November 2013.

Under the agreement for rental adjustment above, the Company incurred a rental totalling RMB5,250,000 in respect of the land and premises leased from Kunming Kunji Group Co., Ltd. for 2013.

2. On 4th August 2011, the Company entered into (1) Lathes Supply Framework Agreement with Yunnan CY Group; (2) Packaging Materials Supply Framework Agreement with Yunnan CY Group Jinhui Spraying Factory; and (3) Vertical Lathes and Radial Drilling Lathes Supply Framework Agreement with Shenyang Machine Tool Holding Company Limited. The term of the agreements was effective from the date approved at the general meeting to 31st December 2013 (the Framework Agreement signed with Shenyang Machine Tool Holdings Limited should also be subject to the approval at the general meeting of the company) and the annual caps of purchasing are listed as follows:

Unit: RMB'0000

Related party	Yunnan CY Group Co., Ltd.	Yunnan CY Group Jinhui Coating Factory	Shenyang Machine Tool Holding Company Limited	Total
As at 31st December 2011	400	400	1600	2400
As at 31st December 2012	500	500	1800	2800
As at 31st December 2013	600	600	2000	3200
Total	1500	1500	5400	8400

3. The Company entered into the leasing contract with Yunnan State-owned Assets Property Management Company Limited ("Property Management Co."), which is the subsidiary of the Company's shareholder – Yunnan Industrial Investment Holding Group Co., Ltd., to lease the man-made cavern, originally used as the fleet repair workshop and place of the Company. The total leasing area is 10,465.96 square meters. The Property Management Co. requested to adjust the rental referring to the fair market value. After negotiation, the following terms have been achieved: a. the rental of the first year will be RMB989,150; b. the rental of the next year will be increased by 10% based on that of the previous year, i.e. the rental of the second year will be RMB1,088,065 and the rental of the third year will be RMB1,196,871; c. the rental is effective for a period of three years from 1st January 2011 to 31st December 2013.
4. In December 2011, the Company entered into an agreement with SCHIESS GmbH to purchase assembly parts of VMG6 prototype machine, amounting to 4,481,309.00 euros. In April 2012, according to the terms of the agreement, the Company paid 2,240,654.50 euros to SCHIESS GmbH for VMG6 prototype machine. In September 2013, according to the agreement, the Company paid the remaining amount of 2,227,024.50 euros for VMG6 prototype machine. As at 31 December 2013, the Company has received the VMG6 prototype machine.



## SIGNIFICANT EVENTS

5. The related transaction between the Company and Kunming TOS Machine Tool Manufacturing Co., Ltd. (a related party) during the year 2013 in relation to purchase of goods, receipt of services, sales of goods and provision of services was approved at the general annual meeting of 2012 held on 15 May 2013. The agreement was effective from the date of approval at the shareholders' meeting. The annual cap of the agreement was as follows:

<b>Date</b>	<i>Unit: RMB'0000</i> <b>Total amount</b>
The prediction as at 31 December 2013	18,600

6. The related transaction between the Company and Kunming TOS Machine Tool Manufacturing Co., Ltd. (a related party) during the year 2013 in relation to purchase of goods, receipt of services, sales of goods and provision of services was approved at the third extraordinary general meeting of 2013 held on 12 December 2013. The agreement was effective from the date of approval at the shareholders' meeting. The annual cap of the agreement was as follows:

<b>Related parties</b>	<b>Kunming TOS</b>	<i>Unit: RMB'0000</i> <b>Total</b>
Proposed in 2013	14,400.00	14,400.00

The independent non-executive directors of the Company had issued independent opinions on the above related party transactions: the above related party transactions were entered into in the ordinary and usual course of business on normal commercial terms through arm's length negotiations and were in the interests of the Company and the shareholders in a whole. These transactions were made without prejudice to the interests of the Company and its other shareholders, especially minority shareholders and non-connected shareholders.

The related party transactions as disclosed in above item 1-4 of this section constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

The auditor of the Company was engaged to report on the continuing connected transactions of the Company as defined under the Hong Kong Listing Rules (ie. those set out above in items 1 and 2) in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, indicating that:

- (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board.
- (b) for continuing connected transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- (c) nothing has come to their attention that causes them to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- (d) with respect to the aggregate amount of each of the above continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the respective annual caps disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

# SIGNIFICANT EVENTS

## XIV. MATERIAL CONTRACTS AND THEIR PERFORMANCE

### 1. Escrow agency, contracting and lease matters

✓ Not applicable

### 2. Guarantee

✓ Not applicable

### 3. Other material contracts

None

## XV. PERFORMANCE OF COMMITMENTS

### 1. Commitments of the Company, shareholders holding over 5% shares of the Company, controlling shareholder and beneficial controller made or subsisting during the reporting period

Background of commitment	Type of commitment	Commitment making party	Content of commitment	Date of commitment and duration	Is there a fulfillment time limit	Whether duly and timely fulfilled	Specify reasons for failure in fulfillment in time	Specify further steps in case of failure in fulfillment in time
Commitment in relation to share reform	Other	Shenyang Machine Tool (Group) Co., Ltd.	It would provide full support to the business development of the Company in terms of technology, business and resources and would consolidate the relevant resources and markets by leveraging on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the completion of the share transfer and share reform with a view to developing Kunming Machine Tool as an important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the enhancement of the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.		No	Yes		

# SIGNIFICANT EVENTS

## XVI. APPOINTMENT AND REMOVAL OF AUDITORS

Any change of auditor:	No
Domestic auditor	Currently engaged KPMG Huazhen (Special General Partnership)
Term of domestic auditor	3 years
Internal control auditor	<b>Name</b> KPMG Huazhen (Special General Partnership)

KPMG Huazhen (Special General Partnership) is a Mainland audit firm approved by the Ministry of Finance and the CSRC who is eligible to act as auditor for Mainland incorporated companies listed in Hong Kong. Therefore, the board of directors of the Company considered to re-appoint KPMG Huazhen (Special General Partnership) as the Company's auditor and internal control auditor for the year 2013. The issue regarding re-appointing auditor has been approved at the annual general meeting of 2012.

## XVII. PENALTIES ON THE COMPANY, ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS, SHAREHOLDERS HOLDING OVER 5% SHARES OF THE COMPANY, BENEFICIAL CONTROLLER AND ACQUIRER, AND RECTIFICATION ISSUES

None

## XVIII. OTHER SIGNIFICANT EVENTS

### 1. Construction progress of Yanglin Industrial Base in 2013

- 1) At the first extraordinary general meeting of 2013 held on 22 March 2013, the Company was approved to enter into an purchase agreement with Yanglin Industrial Zone of the People's Government of Songming County of Kunming City, Yunnan Province, to purchase 598.6 acres land (subject to actual measurement) for phase two construction of Yanglin Base for the consideration of RMB89,790,000 (RMB150,000 per acre). The land is used for the phase two construction of Yanglin Heavy Casting Base, i.e. relocation of casting plant and technological transformation project. The whole project was to be implemented in phases. The project planning and investment proposal will be adjusted from time to time according to the changed economic situation and the operation of the Company.
- 2) Yanglin Base project transformed from an incremental project to the Company's overall relocation project. The overall planning and feasibility study report were completed in March 2013. On 2 April 2013, the Company applied to Yunnan Provincial Industry & Information Technology Commission for registering the relocation project. The Company obtained the project registration certificate (project registration No.135300003520019) issued by Yunnan Provincial Industry & Information Technology Commission on 11 April 2013, and the project EIA approval (Kun Huan Bao Fu [2013] No.245) in August 2013. The Company submitted the project registration certificate, feasibility study report, EIA approval and lending proposal to China Development Bank on 16 September 2013, and is negotiating the lending arrangement.
- 3) The relocation project was listed by the People's Government of Yunnan Province as one of the major industrial construction projects of Yunnan Province in 2013 according to "Yun Zheng Fa [2013] No.31 – Notice of the People's Government of Yunnan Province on Promoting the Implementation of Supervision of 20 Major Construction Projects and 20 Important Work in 2013"

## SIGNIFICANT EVENTS

- 4) Construction of heavy equipment plant and supporting facilities
  1. The heavy equipment processing and assembly plant commenced construction on 24 March 2011 with a floor area of 30,000 square meters. The major construction works, such as the civil construction of the plant, steel structure, doors, windows and installation projects, are in the final stage. Trial energization has been conducted for the workshop power distribution room, while the installation of the power distribution cabinets, assembly machine cabinets and control cabinets in the workshop is in the final stage. The pavement of track for electric vehicles is underway, and the installation of compressed air pipeline is basically completed. The air-conditioning unit and pipeline have been installed but have not conducted commissioning, and the six cranes with a lifting capacity of 50-100 tonnes have been installed and entered into the commissioning stage. Construction of the main body of the four-story auxiliary building has been completed and is pending for second decoration.
  2. The construction of foundation work for the 3,693 sets of assembly groove of the heavy equipment processing and assembly plant is in the final stage.
  3. Construction of the roads surrounding the heavy equipment processing and assembly plant and the underground pipeline network has been completed, which has entered into the commissioning stage.
  4. Construction of the 110KV and 63,000 KAV substation has been basically completed.

### 2. Issue of medium-term notes

At the third extraordinary general meeting of 2012, the Board of directors was approved and authorized to handle the issue of medium-term notes. On 15 May 2013, the Company amended the proposal of the issue of medium-term notes, which determined the Medium-term Notes Prospectus, and determined to issue, after announcement, 5-year notes in two tranches with an aggregate principal amount of no more than RMB500 million for the purpose of supplementing working capital and repaying bank loans. The Company plans to issue the first tranche of 5-year medium-term notes with principal amount of RMB300 million for the period, and has reported it through lead underwriter to the National Association of Financial Market Institutional Investors for approval.

### 3. Announcement of submitting to the general meeting for approval of authority to pledge assets for loans

Since May 2013, banks have strengthened the approval of loans and loans management strategy through comprehensive measures such as increasing collaterals, increasing guarantors and tightening credit, so as to mitigate and preclude risk. Meanwhile, commercial banks have strengthened the control of amount and investment purpose of loans, and increased the efforts to monitor the customers' financial risk and fundamental risk. Presently, banks generally require collaterals upon the grant of loans to enterprises. In order to ensure the working capital of 2013-2014 can be put in the right place timely, the Company proposed to pledge the property, land, machinery and equipment with book value of RMB470 million for bank loans so as to ease financial pressure.

### 4. Debt restructuring

In 2013, the Company entered into debt restructuring agreements with each of 52 suppliers, pursuant to which, the suppliers agreed to reduce the accounts payable owed by the Company from RMB107,770,100 to RMB86,297,940. In accordance with the provisions of these agreements, the suppliers committed to giving up ownership of the reduced amounts and will never claim the rights to the reduced amounts.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## I. CHANGES IN SHARE CAPITAL

### 1. Table of changes in share capital of the Company

Unit: Share

	Before the change		Increase/Decrease (+/-)				Subtotal	After the change	
	Number of shares	Proportion (%)	Issue of new shares	Issue of bonus shares	Transfer from capital reserve	Other		Number of shares	Proportion (%)
I. Shares subject to selling restrictions									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares									
Including:									
Shares owned by domestic non-state-owned legal person	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural person	-	-	-	-	-	-	-	-	-
4. Foreign owned shares									
Including:									
Shares owned by foreign legal person	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural person	-	-	-	-	-	-	-	-	-
II. Circulating shares not subject to selling restrictions	531,081,103	100	-	-	-	-	-	531,081,103	100
1. RMB ordinary shares	390,186,291	73.47	-	-	-	-	-	390,186,291	73.47
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	140,894,812	26.53	-	-	-	-	-	140,894,812	26.53
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	<u>531,081,103</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,081,103</u>	<u>100</u>

### 2. Changes in selling restricted shares

During the reporting period, the Company did not have any selling restricted shares.

## II. ISSUANCE AND LISTING OF SECURITIES

### 1. Issuance of securities in the past three years as at the end of the reporting period

As at the end of the reporting period, no securities were issued and listed by the Company in the past three years.

### 2. Changes in total share capital and share structure and changes in assets and liabilities of the Company

During the reporting period, there were no changes in the total share capital and share structure of the Company resulting from issue of bonus shares and placement.

### 3. Information of existing employee shares

As at the end of the reporting period, there were no employee shares.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## III. SHAREHOLDERS AND BENEFICIAL CONTROLLERS

### 1. Number of shareholders and shareholdings

Total number of shareholders as at the end of the reporting period	<i>Unit: share</i> 46,541
Total number of shareholders of A Shares at the date of 5 trading days before annual report disclosed	45,211

### Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage (%)	Total number of shares held	Increase/Decrease during the reporting period	Number of selling restricted shares held	Number of shares pledged or frozen
HKSCC NOMINEES LIMITED		25.27	133,976,900	–	–	Unknown
Shenyang Machine Tool (Group) Co., Ltd.		25.08	133,222,774	–	–	No
Yunnan Industrial Investment Holding Group Co., Ltd.		11.07	58,772,913	–	–	No
CHAN KWOK TAI EDDIE		0.53	2,800,000	–	–	Unknown
Huang Jiang		0.26	1,424,400	–	–	Unknown
CAI QINGSHAN		0.20	1,083,806	–	–	Unknown
Wang Qixin		0.20	1,077,400	–	–	Unknown
Su Xiaojian		0.16	829,401	–	–	Unknown
LIN JIANMING		0.13	702,306	–	–	Unknown
Zeng Yi		0.13	700,000	–	–	Unknown

### Selling unrestricted shares held by the top ten shareholders

Name of shareholders	Number of selling unrestricted shares	Type of shares
HKSCC NOMINEES LIMITED	133,976,900	Overseas listed foreign shares
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	RMB ordinary shares
Yunnan Industrial Investment Holding Group Co., Ltd	58,772,913	RMB ordinary shares
CHAN KWOK TAI EDDIE	2,800,000	Overseas listed foreign shares
Huang Jiang	1,424,400	RMB ordinary shares
CAI QINGSHAN	1,083,806	Overseas listed foreign shares
Wang Qixin	1,077,400	RMB ordinary shares
Su Xiaojian	829,401	RMB ordinary shares
LIN JIANMING	702,306	Overseas listed foreign shares
Zeng Yi	700,000	RMB ordinary shares

## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### **Explanation of the connected relationship or acting in concert relationship among the above shareholders**

Except for no connected relationship between state-owned legal person shareholders, the Company was not notified of any connected relationship or acting in concert relationship regulated by “Information Disclosure Management Procedure to Changes of Shareholding of Listed Company” among the top ten shareholders.

Other than the substantial shareholders disclosed above, as at 31 December 2013, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of “Administration of the Issuing and Trading of Shares Provisional Regulations” of the PRC and Issue No.2 of “The Content and Format of Disclosure of Information of the Listed Companies” (amended in 2005); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company.

Among top ten shareholders, there are three shareholders holding 5% or more of the Company’s shares. They are HKSCC Nominees Limited (hereinafter referred to as “HKSCC Nominees Limited”), which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares. All of the shares held by these shareholders are not pledged, frozen, nor designated.

Notes:

- 1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company. Holders of H Shares who held more than 5% of total issued H Shares were as follows: None.
- 2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance (“SFO”), or the interest or short position that shall be included in the prescribed register in accordance with Section 336 of SFO.
- 3) As at 31 December 2013, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

This issue was announced in accordance with the regulation – Notice of Supervising the Shareholders of Listed Companies Implementing the Rules on Lessening Terminated Selling Restricted Shareholding issued by Shanghai Stock Exchange.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## IV. CONTROLLING SHAREHOLDER AND BENEFICIAL CONTROLLER

### 1. Beneficial controller

Unit: RMB'000

Name	Shenyang Machine Tool (Group) Co., Ltd.
Person in charge or legal representative	Guan Xiyou
Date of incorporation	18th December 1995
Organization Code	24338125-8
Registered capital	1,556,480
Principal activities	Manufacturing of metal cutting machines, CNC machines and mechanical equipment; general commercial trading, technology trading, property leasing within the PRC, economic information consulting services.
Equity interests in other domestic and overseas listed controlling and invested companies during the reporting period	Shenyang Machine Tool (Group) Co., Ltd. holds 42.6% equity interest in Shenyang Machine Tool Co., Ltd., whose beneficial controller is Shenyang State-owned Assets Supervision and Administration Commission

## V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING OVER 10% SHARES OF THE COMPANY

Unit: RMB

Name of legal person shareholder	Person in charge or legal representative	Date of incorporation	Organization code	Registered capital	Principal operating or managing activities
Yunnan Industrial Investment Holding Group Co., Ltd.	Liu Wenzhang	12th May 2008	67363734-8	6,400,000,000	Investment and financing, assets operation, merger and acquisition of enterprises, equity trading, state-owned assets trusted investment and trusted disposal in various industries and different business subject to the laws and regulations; domestic and international trade; other businesses approved by the Yunnan Provincial Government



# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## I. MOVEMENT IN SHAREHOLDING AND EMOLUMENTS

### 1. Movement in shareholding and emoluments of existing and resigned directors, supervisors and senior management during the reporting period

*Unit: share*

Name	Title	Gender	Age	Date of appointment	End date of appointment	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in number of shares held during the year	Reason for change	Total emoluments received from the Company during the reporting period (RMB ten thousand) (before tax)
Wang Xing	Chairman, Executive director	Male	48	28th July 2011	31st October 2014	-	-	-	-	82.6
Zhang Xiaoyi	Vice chairman, Executive director	Male	49	31st October 2008	31st October 2014	-	-	-	-	80.4
Zhang Tao	Non-executive director Vice chairman	Male	43	31st October 2008 18 March 2014	31st October 2014 31st October 2014	-	-	-	-	0
Ye Nong	Executive director Vice general manager	Male	53	23 June 2010 30 December 2006	31st October 2014 31st October 2014	-	-	-	-	69.9 0
Zhang Zeshun	Executive director Chief financial officer	Male	34	18 March 2014 28 January 2014	31st October 2014 31st October 2014	-	-	-	-	-
Guan Xin	Non-executive director	Male	45	23 June 2010	31st October 2014	-	-	-	-	5.7
Gao Minghui	Non-executive director	Male	50	28 July 2011	31st October 2014	-	-	-	-	54.7
Zhou Donghong	Non-executive director	Male	44	18 March 2014	31st October 2014	-	-	-	-	0
Yang Xiongsheng	Independent non-executive director	Male	53	23 March 2013	31st October 2014	-	-	-	-	11.3
Chen Fusheng	Independent non-executive director	Male	48	16 June 2011	31st October 2014	-	-	-	-	20
Tang Chunsheng	Independent non-executive director	Male	48	18 March 2014	31st October 2014	-	-	-	-	0
Shao Li	Chairman of the Supervisory Committee	Male	55	31 October 2008	31st October 2014	-	-	-	-	50.4
Fan Hong	Supervisor	Male	50	31 October 2008	31st October 2014	-	-	-	-	0
Cai Zhemin	Supervisor	Male	51	10 May 2011	31st October 2014	-	-	-	-	4.3
Qin Jianzhong	Supervisor elected by staff	Male	59	31 October 2011	31st October 2014	-	-	-	-	37.9
Chang Baoqiang	General manager	Male	48	28 March 2013	31st October 2014	-	-	-	-	39.4
Zhu Xiang	Vice general manager	Male	48	20 August	31st October 2014	-	-	-	-	61.8
Zhou Guoxing	Vice general manager	Male	51	10 April 2006	31st October 2014	-	-	-	-	54.8
Xu Kunping	Vice general manager	Male	44	10 February 2009	31st October 2014	-	-	-	-	56.7
Jin Xiaofeng	Vice general manager	Male	47	28 February 2014	31st October 2014	-	-	-	-	0
Luo Tao	Secretary to the Board	Male	38	28 May 2008	31st October 2014	-	-	-	-	42.5
Li Zhengxiong	Vice chairman	Male	51	23 March 2007	28 January 2014	-	-	-	-	0
Li Shunzhen	Executive director Chief financial officer	Female	41	31 October 2011 31 October 2011	28 January 2014 28 January 2014	-	-	-	-	48.5 -
Liu Minghui	Independent non-executive director	Male	49	23 March 2007	22 March 2013	-	-	-	-	3.6
Li Dongru	Independent non-executive director	Female	58	29 June 2007	29 June 2013	-	-	-	-	11.9
Yu Chengting	Independent non-executive director	Male	74	26 August 2013	12 December 2013	-	-	-	-	3
Xiao Jianming	Independent non-executive director	Male	67	31 October 2011	27 January 2014	-	-	-	-	14.3
Tang Hua	Supervisor	Female	56	10 May 2011	18 March 2013	-	-	-	-	1.1

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Wang Xing**, male, born in 1965. He graduated from Harbin University of Science and Technology majoring in auditing in 1989. He is currently an undergraduate of the MPACC at Dongbei University of Finance and Economics. In 1989, he worked for the Auditing Department of Shenyang First Machine Tool Factory. In early 1996, he worked for the Finance Department of Shenyang Machine Tool (Group) Co., Ltd. Later that year he joined the liquidation team of Shenyang Third Machine Tool Factory. In January 2001, he acted as the vice general manager and the head of Finance Department of Zhong Jie Machine Tool Co., Ltd. At the end of 2003, he worked as the vice general manager and the head of Finance Department of Shenyang CNC Machine Tool Co., Ltd. From 2006, he was the director and the head of Finance Department of Shenyang Machine Tool (Group) Kunming Co., Ltd. Since March 2007, he has held the positions of vice general manager and the head of Finance Department of Yunnan CY (Group) Co., Ltd. On 23rd March 2007, he was appointed as the director of the Company. On 28th July 2011, he was appointed as the chairman of the Company. His tenure of appointment will expire on 31st October 2014.

**Zhang Xiaoyi**, male, born in April 1964, holding master postgraduate qualification and a bachelor degree of engineering and is a senior engineer. He is currently the vice-chairman, executive director and deputy secretary to the Committee of Communist Party of China ("CPC") of the Company. Mr. Zhang joined Kunming Machine Tool Factory in 1985. He has extensive experience in machinery design and technology management. He worked as the deputy manager, manager of the technical center of the Company, general manager assistant and chief engineer, vice general manager and general manager of the Company. His tenure of appointment will expire on 31st October 2014.

**Zhang Tao**, male, born in June 1970, holding a bachelor degree and is an engineer. Mr. Zhang graduated from the Department of Architecture of Yunnan Industrial University majoring in city roads and bridges in 1991. During July 1991 to December 1993, he worked as the technician and subsequently the assistant engineer for the Kunming railroad second maintenance team under Chengdu Railroad Bureau. During December 1993 to May 1996, he was the secretary to the office of Kunming Railroad Bureau. During May 1996 to June 2004, he worked as the vice manager, manager and the vice chairman of the labor union of Yunnan Guangda Railroad Co., Ltd. During June 2004 to March 2008, he held the positions of office manager, secretary to the board, general manager assistant and vice chief engineer at Dianxi Railroad Co., Ltd. Since March 2008, he has been the general manager of Investment Department of Yunnan Industrial Investment Holding Group Co., Ltd. His tenure of appointment will expire on 31st October 2014.

**Ye Nong**, male, born in November 1960, holding postgraduate qualification and is an engineer. Mr. Ye currently is the vice general manager of the Company. During February 2000 to May 2002, he was the manager of the Technology Department of Shenyang Machine Tool (Group) and the vice president of Shenyang Machine Tool Design Institute. During May 2002 to December 2003, he was the manager of the Quality Control Department of Zhongjie Machine Tool Co., Ltd. He was the manager of Production Department of Zhongjie Machine Tool Co., Ltd. from December 2003 to June 2006. Since June 2006, he has worked for the Company as general manager assistant and vice general manager. On 23rd June 2010, he was appointed as the director of the Company. His tenure of appointment will expire on 31st October 2014.

**Zhang Zeshun**, male, Han nationality, born in June 1979, university graduate, senior accountant, certified public accountant, graduated from Jiangxi University of Science and Technology (the former Southern Institute of Metallurgy) in accounting auditing major in 2002. From August 2002 to July 2004, he worked as an auditor in the auditor department for Yunda Technologies Co., Ltd.. From July 2004 to July 2007, he was the accounting supervisor, financial manager of the finance department of Yunda Technologies Co., Ltd.. From July 2007 to October 2007, he worked for Yunnan Investment Guarantee Co., Ltd. business development department; from October 2007 to now, he has worked as the manager of the finance department of Yunnan State-owned Kunming Economic Development Zone Industrial Development Co., Ltd.. His tenure of appointment will expire on 31st October 2014.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Guan Xin**, male, born in May 1968, holding a master post-graduate diploma, senior economist. Mr. Guan started his career in August 1990. From February 2005 to August 2009, Mr. Guan was the director of securities unit, general manager assistant, head of financial department, secretary to the board, vice general manager of Shenyang Machine Tool Co., Ltd. Meanwhile, he was the director of the Strategic Investment Unit of Shenyang Machine Tool (Group) Co., Ltd. From August 2009 to November 2009, he was the general manager assistant and the head of finance and investment unit of Shenyang Machine Tool (Group) Co., Ltd. Since November 2009, he has been the vice general manager of Shenyang Machine Tool (Group) Co., Ltd. From 23rd June 2010, he has been appointed as the director of the Company. His tenure of appointment will expire on 31st October 2014.

**Gao Minghui**, male, born in 1963, holding a bachelor degree and postgraduate qualification. He is currently the non-executive director and secretary to the Committee of CPC of the Company. He graduated from the Northeastern University majoring in engineering in 1988. Mr. Gao was a researcher, deputy manager and manager of the Research and Development Department of Shenyang First Machine Tool Factory. Then he was the deputy chief engineer, assistant to general manager, deputy general manager, and general manager of Shenyang First Machine Tool Factory. Starting from January 2002, he had also been as the deputy general manager of Shenyang Machine Tool Co., Ltd. He had been the chairman of the board of directors of Yunnan Machine Tool Factory (now known as Yunnan CY Group Co., Ltd. since the change of name in 2006) from August 2004. Since 2006, he had been the chairman of Shenyang Machine Tool (Group) Co., Limited. He was appointed as the director of the Company on 30th October 2006. During 23rd October 2007 to 29th April 2008, he was also the general manager of the Company. During 30th December 2006 to 28th July 2011 he was the chairman of the Company. His tenure of appointment will expire on 31st October 2014.

**Zhou Donghong**, male, Han nationality, born in June 1970, university graduate, senior human resources management professional, politic official. He worked for Kunming Cement Company Limited from 1988, experiencing Youth League officer, deputy secretary of Youth League, secretary of the Communist Party branch of finished product workshop. From April 2003 to July 2006, he worked for Yunnan State-owned Cement Kunming Co., Ltd. as the deputy secretary of the Communist Party, secretary of the Discipline Committee and deputy general manager of the company. From July 2006 to March 2008, he was the vice director of the retirement management center of Yunnan State-owned Assets Operation Co., Ltd. From February 2007, he was the manager of the human resources department; from March 2008 to August 2011, he worked as the manager of the human resources department of Yunnan Industrial Investment Holding Group Co., Ltd., and from September 2008 to now, he has been the general manager of Yunnan State-owned Property Management Ltd. From 18 March 2014, he was appointed as the director of the Company. His tenure of appointment will expire on 31st October 2014.

**Yang Xiongsheng**, male, born in 1960, chair of the accounting department of the school of business of Nanjing University, professor, doctoral tutor. Mr. Yang was graduated at Xuzhou Normal University in 1981, and he has doctorate of accounting at Dongbei University of Finance and Economics. He had worked for Lianyungang Finance School and Lianyungang audit bureau. From 1995, he has worked at the accounting department of Nanjing University. Presently, he is the chair of the accounting department of Nanjing University, the vice president of the fifth council of Chinese Institute of Finance and Cost for Young and mid-career professionals, deputy secretary-general of Accounting Society of China, vice president of Accounting Society of Jiangsu Province, advisory expert of accounting standards for China Accounting Standards Committee under the Ministry of Finance; adjunct doctoral tutor at Nanjing University of Science and Technology, adjunct professor at Anhui University of Finance and Economics. The main research areas of Mr. Yang: internal control, basic theory of accounting, financial management and management accounting. Presently, he has published more than 200 papers, monographs and more than 20 textbooks. He directly involved in the research of specific control criterion and drafting work of the Internal Accounting Control Standards – Basic Standards by the Ministry of Finance, and he undertook a number of key scientific researches for the Ministry of Finance. His tenure of appointment will expire on 31st October 2014.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Chen Fusheng**, male, born in 1965, doctor of accountancy, master of economics, member of American Accounting Association, member of Hong Kong Academic Accounting Association. During 1996 to 1998, he was a part-time demonstrator of the Faculty of Business at University of Alberta in Canada. In 2006, he was a visiting professor at Tsinghua University. He is now an associate professor in accounting of the Faculty of Business at the Hong Kong University of Science and Technology, editor of "International Accounting Research Journal", specialized professor of the Faculty of Business at Nanjing University and the Faculty of Accounting at Shanghai University of Finance and Economics. His tenure of appointment will expire on 31st October 2014.

**Tang Chunsheng**, male, born in 1966, Ni nationality, holding a master degree, senior accountant, China CPA, China CPV, Certified Valuation Analyst (CVA), vice chairman of Yunnan assets valuation association, director of Yunnan CPA association, member of evaluation expert group of major asset restructuring projects for Yunnan State-owned Assets Supervision and Commission ("SASAC"), member of senior accountant professional title judging panel of department of human resources and social security of Yunnan Province, financial expert of the financial office of Yunnan provincial government, outside campus graduate mentor of Yunnan Financial and Economics and, Yunnan University. From 1985 to 1998, he took the positions of manager of financial department, manager of audit department, chief accountant at Chuxiong Autonomous Prefectures Power Industry Company. His tenure of appointment will expire on 31st October 2014.

**Shao Li**, male, Han nationality, born in 1958, holding a master degree and is a deputy researcher. He is currently the deputy secretary to the Committee of CPC of the Company and chairman of the Supervisory Committee. Mr. Shao joined the Second Light Industry Bureau of Kunming City in February 1984 as a deputy office manager. In May 1987, he worked for Publicity Department under the Committee of CPC in Kunming City as the office manager, and subsequently the assistant to the director of the department. In December 1992, he worked for Research Center of Kunming City Government as a deputy director. In August 2000, he worked for the Enterprises Union Department under the Committee of CPC in Yunnan Province as the deputy office manager and subsequently the director of the research center. In February 2003, he worked for Yunnan State-owned Assets Supervision and Administration Commission as the director of Policy and Statute Department. Since October 2007, Mr. Shao has been the deputy secretary to the Committee of CPC of the Company. His tenure of appointment will expire on 31st October 2014.

**Fan Hong**, male, born in June 1963, holding a bachelor degree and is an economics. Mr. Fan graduated from Jiangxi University of Finance & Economics majoring in finance in 1987. During July 1987 to September 1992, he worked for the Provincial Department of Finance of Yunnan. During August 1992 to February 2005, he worked as the department manager for Yunnan International Trust and Investment Company. Since February 2005, he has held the positions of trust department manager, risk control department manager and policy and statute department manager and general manager assistant of Yunnan State-owned Assets Operation Co., Ltd. In August 2011, he was appointed as chairman of Yunnan Equity Exchange Co. Ltd.. His tenure of appointment will expire on 31st October 2014.

**Cai Zheming**, male, born in 1962, member of the CPC, holding college diploma, engineer, now is the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. Mr. Cai went into workforce in 1981. In 1996, he joined Shenyang Machine Tool (Group) Company Limited and was successively the official of technology department, production department, planning department. From 2007 to 2008, he was the manager of the planning department. From 2008 to 2009, he was the manager of engineering planning department of Shenyang Machine Tool Company Limited. From 2009, he has been the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. His tenure of appointment will expire on 31st October 2014.

**Qin Jianzhong**, male, born in September 1954, holding a postgraduate qualification, senior economist. He is currently the chairman of the labor union and the supervisor elected by staff of the Company. He joined Kunming Machine Tool Factory in 1982 and has held the positions of technician, deputy director and the director of Workshop, deputy head and head of the Labour and Personnel Section, Supervisor of the Supervisory Committee of the Company, director of the Board, vice general manager and vice secretary to the Committee of CPC of the Company. His tenure of appointment will expire on 31st October 2014.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Chang Baoqiang**, male, born in 1966, graduated at Barbin University of Science of Technology with major in equipment and process of precision machinery manufacturing, holding master degree, senior engineer. Mr. Chang started his career in 1988. He was a designer of Shenyang Third Machine Tool Plant; chief designer of Shenyang Machine Tool Center; deputy chief engineer of Shenyang CNC Machine Tool Plant; head of development department, manufacturing department, and deputy general manager of Shenyang CNC Machine Tool Co., Ltd.; head of engineering department of Shenyang Machine Tool (Group) Co., Ltd.; head of manufacturing coordinating department, manufacturing and supply department of Shenyang Machine Tool Co., Ltd.; Deputy general manager of Shenyang First Machine Tool Plant; general manager and party secretary of Shenyang Machine Tool Co., Ltd. Shen Yi Lathe Factory. His tenure of appointment will expire on 31st October 2014.

**Zhu Xiang**, male, born in April 1966, holding master postgraduate qualification and is a senior engineer. He is currently the vice general manager of the Company. He joined Kunming Machine Tool Factory in 1988. He has extensive experience in machine tool products design and sales management. He has held the positions of vice director of Assembly Sub-Plant of Kunming Machine Tool Factory, deputy director of the Technology Centre, vice manager of the Sales Department, manager of Sales Company, general manager assistant, and from 20th August 2007, the vice general manager of the Company. His tenure of appointment will expire on 31st October 2014.

**Zhou Guoxing**, male, born in November 1962, holding a master degree and is a senior engineer. He is currently the vice general manager of the Company. Mr. Zhou joined Kunming Machine Tool Factory in 1987 and has extensive experience in machine tool design and production management. He was the manager of the Laboratory of the Company; vice manager and manager of the Technical Center; deputy chief engineer; manager of the Manufacture Center; general manager assistant and the head of the assembly sub-plant; chief engineer and from 10th April 2006, the vice general manager of the Company. His tenure of appointment will expire on 31st October 2014.

**Xu Kunping**, male, born in November 1969, holding a bachelor degree and currently engaged in postgraduate study for a master degree, a senior engineer. He is currently the vice general manager of the Company. Mr. Xu joined Kunming Machine Tool Factory in 1991 and has extensive experience in machine tool R&D and design, technical management and sales management. From 1993, he was the designer, machine room manager, vice director and director of the Technical Center and general manager assistant. Since 24th March 2010, he has been the vice general manager of the Company, responsible for the marketing efforts. His tenure of appointment will expire on 31st October 2014.

**Jin Xiaofeng**, male, born in November 1966, CPC member, having postgraduate education, accountant. From August 1986 to May 2004 Mr. Jin worked for Shenyang First Machine Tool Factory as a staff for costing in financial department, team leader, assistant department director, vice department director, assistant general manager and vice general manager. From May 2004 to June 2008, Mr. Jin was the vice director of financial department, director of treasury management department and director of fund settlement center of Shenyang Machine Tool (Group) Co. Ltd.. From June 2008 to November 2011, he was the director of financial and assessment department of Shenyang Machine Tool Co. Ltd. From November 2011 up to now, he has been the director of investment department, accounting department of Shenyang Machine Tool (Group) Co. Ltd. His tenure of appointment will expire on 31st October 2014.

**Luo Tao**, male, born in July 1975, holding a master degree and postgraduate qualification. He is currently the secretary to the Board of the Company (joint company secretary) and affiliate member of the Hong Kong Institute of Chartered Secretaries. Starting from October 2005, he has held the positions of assistant secretary to the Board and the manager of the office of the Board of the Company, manager of the office of general manager and securities affairs representative. Since May 2008, he has been the secretary to the Board of the Company. His tenure of appointment will expire on 31st October 2014.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Li Zhenxiong**, male, born in May 1962, holding master postgraduate qualification and is an assistant economist. He is currently the vice-chairman of the Company. Mr. Li joined Kunming Machine Tool Factory in 1985 and worked as the technician for construction and the head of construction team. During October 1993 to July 2002, he was the general manager and secretary to the committee of CPC of Kunming Kunji Group Construction Company. Since August 2002, he has acted as the general manager assistant, member of party committee, vice general manager and general manager of Kunming Kunji Group Company. He is now the general manager assistant of Yunnan Industrial Investment Holding Group Co., Ltd. Mr. Li was the vice chairman of the Company and he has resigned.

**Li Shunzhen**, female, born in April 1972, holding a bachelor degree, certified public accountant, senior accountant. Ms. Li graduated at Jiangxi University of Finance and Economics in 1995 in the major of investment and economic management. From July 1995 to March 1998, she worked at the First Engineering Company under Yunnan Railway Construction handling project budget and as an accountant. From March 1998 to July 2002, she worked at Yunnan Guang Da Railway Maintenance Company as an accountant. From July 2002 to August 2008, she worked at Yunnan State-owned Assets Operation Company Limited as an accountant in finance department. From August 2008 to June 2011, she worked at Yunnan Industrial Investment Holding Group Company Limited as an accountant in finance department. Since June 2011, she has worked at Shaoyang Industrial Development Co., Ltd. under Yunnan Industrial Investment Holding Group Company Limited as a chief financial officer. From October 2011 to January 2014, she was the chief financial officer of the Company and she has resigned.

**Liu Minghui**, male, born in 1964, is a professor and tutor of doctoral students and certified public accountant. During August 1987 to May 2000, he was an assistant lecturer, lecturer, associate professor and professor in Dongbei University of Finance and Economics. Since May 2000, he has been a tutor of doctoral students. During March 2001 to January 2004, he was the head of Jinqiao Faculty of Business at Dongbei University of Finance and Economics. During January 2004 to October 2004, he was the general manager of Dongbei University of Finance and Economics Magazine Company. From October 2004, he has held the positions of vice president of Dalian Newspaper Group and president of Dalian Publisher. He is also the director, vice-secretary general of China Accounting Association, a president of a branch of Cost Accounting Association, a president of a branch of Cost Accounting Association, director of China Auditing Association etc. Mr. Liu was the independent non-executive director of the Company and he has resigned.

**Li Dongru**, female, born in 1955, Han nationality, member of the CPC, professor level senior engineer, holding postgraduate qualification. Ms. Li is working at the China Machinery Industry Federation (the "Federation"). Starting from January 2001, she has been the manager of the Science and Technology Department of the Federation and is responsible for the management of the machinery industry. During the periods of the Ninth and Tenth Five-year plans, she organized or managed the implementation of "Research and Development in Engineering of CNC Technology and Equipment (數控技術與裝備工程化的研究與開發)", a key project for the state-level science and technology development plan of the Ninth Five-year plan and "Development and Studies of New Generation CNC System Platform(新一代數控系統平台的開發研究)", a the key project for the national technological innovation plan of the Ninth Five-year plan. She organized the feasibility evaluation and implementation of key projects for the state-level science and technology development plan of the Tenth Five-year plan, namely "Research and Practical Demonstration of Precision Manufacturing and Key CNC Technology (精密製造與數控關鍵技術研究和應用示範)" and "Research and Development of Advanced Production Technique for Basic Components and Its Application (先進製造基礎件技術研究開發與應用)". She also participated in the feasibility evaluation and annual implementation of "Key CNC Technology and Supporting Technology for Equipment Industrialization and Their Applications (數控關鍵技術與裝備產業化支持技術及應用)", a project focused on the subject field of technologies on robots under the area of advanced manufacturing and automation technology of 863 Program. Ms. Li was the independent non-executive director of the Company and she has resigned.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

**Yu Chengting**, male, born in 1940, graduated at Beijing Institute of Machinery Industry with diploma, presently as a special consultant, honorary chairman of China Machine Tool & Tool Builders' Association. From 1962, Mr. Yu had worked for Beijing First Machine Tool Plant, American Haoduo Company, Machine Tool Division under National Machinery Commission, Machine Tool Division under Ministry of Machinery and Electronics Industry, Mechanical Basic Equipment Division under Ministry of Mechanical as a technician, design chief, deputy factory director, factory director, general manager, deputy director-general, director-general. From 2000 to 2004, he was the secretary-general of China Machine Tool Industry Association; from 2001 to 2004, he was also the vice chairman of China Machinery Industry Federation; from 2004 to 2009, he was the executive vice president of China Machine Tool Industry Association. He was the independent non-executive director of the Company and has submitted the resignation report to the Company.

**Xiao Jianming**, male, born in November 1947, holding a bachelor degree, senior political officer, part-time professor of Kunming Polytechnic University Management College. From September 1968 to May 1971, he worked for a construction brigade under the fourteen metallurgy construction group second construction company. From May 1971 to August 1978, he worked at the material supply department of the fourteen metallurgy construction group. From September 1982 to February 1984, he was vice division chief of secretary department under the office of committee of CPC of the fourteen metallurgy construction group. From February 1984 to July 1987, he was the vice section chief of publicity section of the fourteen metallurgy construction group. From July 1987 to January 1993, he was the secretary to the committee of CPC of the equipment and materials company under the fourteen metallurgy construction group. From January 1993 to December 1997, he was the secretary to the committee of CPC of Kunming Prospecting Design Institute of China Nonferrous Metal Industry. From December 1997 to November 1998, he was the secretary to the committee of CPC of Yunnan Stannum Industry Company. From November 1998 to September 2001, he was the secretary to the committee of CPC and manager of Yunnan Stannum Industry Company. From September 2001 to December 2007, he was the secretary to the committee of CPC and chairman of Yunnan Stannum Industry Group. From December 2007 to February 2011, he was the vice section chief of the finance and economic committee under the people's congress of Yunnan province. He retired in March 2011. He was the independent non-executive director of the Company and has resigned.

**Tang Hua**, female, born in 1957, member of the CPC, holding postgraduate qualification, senior engineer, senior political officer, now is the chairman of the labor union of Shenyang Machine Tool (Group) Company Limited. Ms. Tang went into workforce in 1975. In 1994, she joined Shenyang Machine Tool (Group) Company Limited and has successively held the posts of sales person, executive officer in overseas business unit. From 1997 to 2007, she was the office manager of the union and vice chairman of the union. From 2007 to 2008, she was the secretary to the Third Committee of CPC, secretary of Discipline Inspection Commission and the Chairman of the labor union. She has been the vice chairman and chairman of the labor union of the Company since 2008. She was the supervisor of the Company and has resigned.

According to the regulations of the Guidance for Listed Companies on Establishment of Independent Non-executive Directors System and the Articles of Association of the Company, members of independent non-executive directors of the Board should not less than 1/3 of the Board members. The Board now includes 12 members and four of them are independent non-executive directors. The resignation of Mr. Yu will lead to the proportion below the specified. Presently, the Company has not found a suitable candidate to fill the vacancy. According to the Articles of Association of the Company, members of independent non-executive directors of the Board less than the statutory minimum member, before the new elected independent non-executive director taking office, Mr. Yu will continue to perform his duties in accordance with the laws, administrative regulations and the Articles of Association of the Company.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## II. POSITIONS HELD BY EACH OF EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

### 1. Positions in shareholder's business unit

Name	Shareholder's business unit	Position	Date of appointment	End date of appointment
Guan Xin	Shenyang Machine Tool (Group) Co., Ltd.	Vice general manager		
Zhang Tao	Yunnan Industrial Investment Holding Group Co., Ltd.	General manager of Investment Department		
Fan Hong	Yunnan Equity Exchange Co. Ltd.	Chairman		

### 2. Positions in other companies

Name	Other Companies	Position	Date of appointment	End date of appointment
Wang Xing	Shenyang Machine Tool (Group) Kunming Co., Ltd.	Vice general manager		
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director		
	Kunming Kunji General Machine Co., Ltd.	Chairman		
Gao Minghui	Shenyang Machine Tool (Group) Kunming Co., Ltd.	Chairman		
Zhang Xiaoyi	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Vice chairman		
	Kunming TOS Machine Tool Manufacturing Co., Ltd.	Vice chairman		
	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director		
Ye Nong	Kunming TOS Machine Tool Manufacturing Co., Ltd.	Director		
Zhou Donghong	Yunnan State-owned Property Management Ltd.	General manager		
Liu Minghui	Dalian Newspaper Group	Vice president		
	Dalian Publisher	President		
Yang Xiongsheng	the accounting department of the school of business of Nanjing University	Department head		
Li Dongru	China Machinery Industry Federation	Secretary to the board		
Chen Fusheng	the Faculty of Business at the Hong Kong University of Science and Technology	Associate professor, editor		
	International Accounting Research Journal			
Tang Chunsheng	ZhongHe Appraisal Co., Ltd.	Director		
Zhou Guoxing	Kunming TOS	Member of controlling committee		
Zhu Xiang	Kunming Kunji General Machine Co., Ltd.	Director, general manager		
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director		
Luo Tao	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director		



# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## III. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### The procedures for the determination of directors, supervisors and senior management's Emoluments

The emoluments of directors and supervisors of the Company will be considered and approved at the shareholders' meeting; the emoluments of senior management officers are determined based on the terms of reference of the senior management officers in accordance with the remuneration policies formulated by the Remuneration and Assessment Committee of the Company, and assessed with reference to the profit indicators, operating indicators and business development indicators accomplished by the senior management officers for the year, and the improvement in quality of the assets of the Company. The performance assessment results for the year, together with rewards and penalties proposed by the Remuneration and Assessment Committee, will be implemented with the approval from the Board.

### Basis for emoluments of directors, supervisors and senior management officers

- (1) general information of the emoluments of domestic directors and supervisors;
- (2) general information of the emoluments of Hong Kong directors and supervisors;
- (3) emoluments of senior management officers are based on the domestic industry practice and emoluments of the comparable listed companies in the region;

## IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

Name	Position	Change	Reasons for change
Tang Hua	Supervisor	Resignation	Job reason
Liu Minghui	Independent non-executive director	Resignation	Tenure of appointment expired
Li Dongru	Independent non-executive director	Resignation	Tenure of appointment expired
Yang Xiongsheng	Independent non-executive director	Appointment	
Yu Chengting	Independent non-executive director	Appointment	
Yu Chengting	Independent non-executive director	Submitted resignation	Personal reason
Xiao Jianming	Independent non-executive director	Resignation	Personal reason
Li Zhenxiong	Vice chairman	Resignation	Job reason
Li Shunzhen	Director, chief financial officer	Resignation	Job reason
Zhang Zeshun	Director, chief financial officer	Appointment	
Zhou Donghong	Non-executive director	Appointment	
Tang Chunsheng	Independent non-executive director	Appointment	Job transfer
Zhang Xiaoyi	General manager	Resignation	Job transfer
Chang Baoqiang	General manager	Appointment	

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## V. STAFF OF THE PARENT AND MAJOR SUBSIDIARIES

### 1. Staff

No. of existing staff of the parent	2,259
No. of retired staff whose retirement expenses undertaken by the parent and its major subsidiaries	164

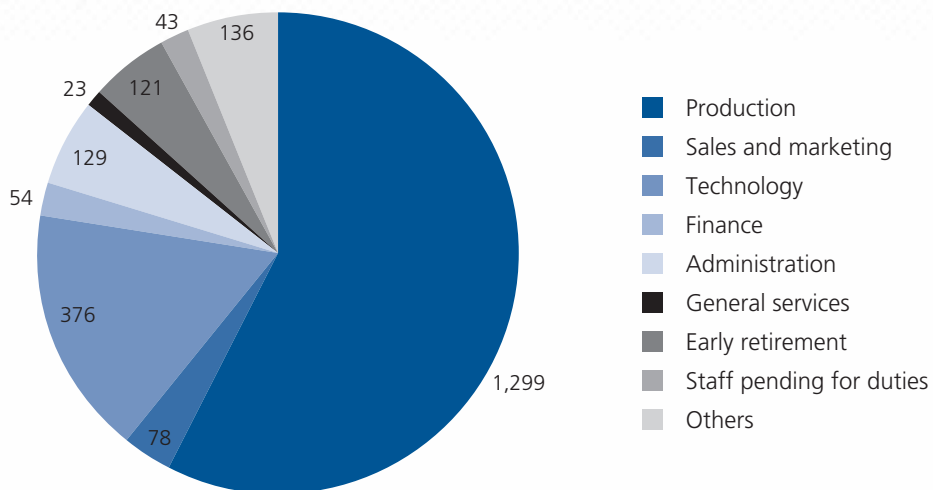
Areas of specialization	Number of employees
Production	1,299
Sales and marketing	78
Technology	376
Finance	54
Administration	129
General services	23
Early retirement	121
Staff pending for duties	43
Others	136
Total	2,259

Education level	Number of employees
Postgraduate or above	26
University graduate	390
College diploma	405
Diploma	328
High school or vocational school	641
Junior high school or below	469
Total	2,259

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

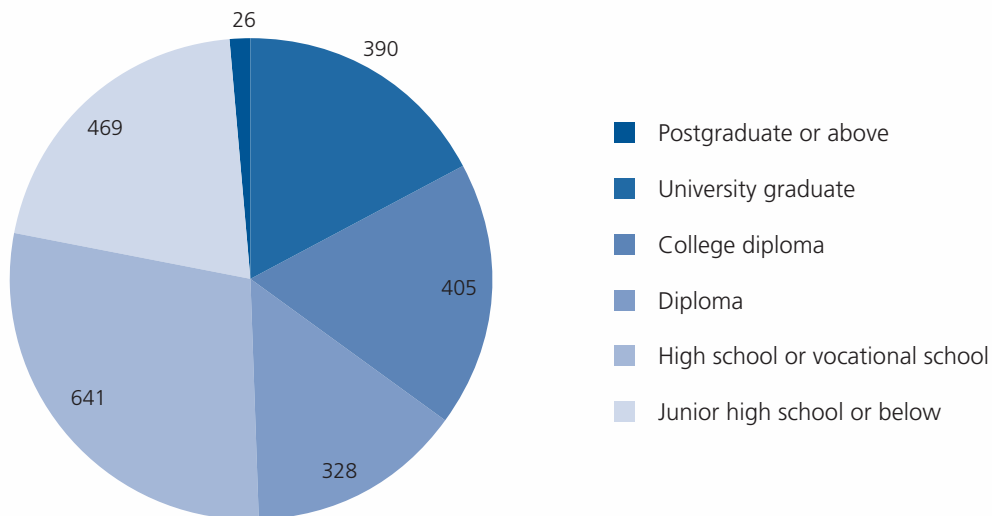
## (1) Chart of Specialization:

Areas of Specialization



## (2) Chart of Education Level:

Education Level (number of employees)



# CORPORATE GOVERNANCE

## I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDER REGISTRATION MANAGEMENT

The Company strictly complies with the Company Law, the Securities Law and relevant regulations issued by the CSRC and the Shanghai Stock Exchange to establish a modern enterprise system, continuously improve its corporate governance and regulate the operations of the Company. Various systems of the Company are substantially in compliance with the requirements of the “Corporate Governance Standards of Listed Company” promulgated by the CSRC and the State Economic and Trade Commission. In the future, the Company will continue to improve and strengthen the internal control system in the ordinary course of operation so as to strive for the highest standards of corporate governance.

To further improve the corporate governance, the Company formulated the Registration and Management System of Persons with Inside Information in accordance with the requirements of the relevant documents issued by the Shanghai Stock Exchange. Through studies, the Company has a more profound understanding on the importance of inside information management and will continue to enhance the Registration and Management System of Persons with Inside Information, continuously improve the internal control system and strengthen self-discipline awareness, so as to secure confidentiality of the inside information and increase the compliance awareness of insiders, further improving the compliant operation of the Company and effectively preventing and combating inside trading and other illegal securities trading conducts, with an aim to uphold the principle of “openness, equality and fairness” in the securities market and safeguard the legal interests of all shareholders of the Company.

# CORPORATE GOVERNANCE

## II. SHAREHOLDERS' MEETING

Meeting session	Meeting Date	Name of resolutions of the meeting	Results of resolutions	Designated websites for publishing the resolutions	Publishing date resolved for disclosure
The first extraordinary general meeting of 2013	22 March 2013	<ol style="list-style-type: none"> <li>Proposed Purchasing Second Phase Land for Yanlin Base;</li> <li>Proposed agreements regarding daily connected transactions between the Company and TOS Kunming Machine Tool Manufacturing Company Limited ("TOS Kunming") and its foreign shareholder</li> <li>To consider and approve the appointment of Mr. Yang Xiongsheng as the independent non-executive director of the seventh board of directors of the Company.</li> </ol>	All were considered and passed	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	23 March 2013
2012 annual general meeting	15 May 2013	<ol style="list-style-type: none"> <li>The report of the board of directors of the Company for the year 2012;</li> <li>The report of the supervisory committee of the Company for the year 2012;</li> <li>The annual report of the Company for the year 2012;</li> <li>The profit distribution of the Company for the year ended 31 December 2012;</li> <li>The financial budget for the year ending 31 December 2013; The operating income objective for 2013 is RMB1.25 billion and the objective of net profit for 2013 is RMB10 million;</li> <li>The proposal on using RMB25,000,000 for the general technological renovation projects for the year 2013;</li> <li>Authorizing the Company to sign the contract under RMB100 million of total guarantee amount with CITIC Bank for the Company's customers' mortgage loans in the bank to sell the Company's products;</li> <li>Re-appointing KPMG Huazhen (Special General Partnership) as the auditor of the Company for the year 2013 and authorize the Board to decided the audit fee;</li> <li>The independent non-executive directors' work report for the year 2012.</li> <li>To consider and approve the amendment to the issuance of medium-term notes and authorizing the Board to be sole responsible for and decide the issuance of medium-term notes.</li> <li>To consider and approve the daily connected transactions between the Company and TOS Kunming in the year of 2013.</li> </ol>	All were considered and passed	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	16 May 2013
The second extraordinary general meeting of 2013	26 August 2013	<ol style="list-style-type: none"> <li>To consider and approve the judgment of the financial budget for the year 2013: operating income: 1 billion; net profit: 5 million.</li> <li>To consider and approve the appointment of Mr. Yu Chengting as the independent non-executive director of the seventh board of directors of the Company.</li> </ol>	All were considered and passed	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	27 August 2013
The third extraordinary general meeting of 2013	12 December 2013	<ol style="list-style-type: none"> <li>To consider and approve the daily connected transactions being entered between the Company and Kunming TOS and its foreign shareholder for the year 2013.</li> <li>To consider and approve the resolution of borrowing bank mortgage loans with 470 million Company's assets and authorizing the Board to be solely responsible for and decide on specific mortgage loans.</li> </ol>	All were considered and passed	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	13 December 2013

# CORPORATE GOVERNANCE

## III. DIRECTORS AND THEIR DUTIES

### 1. Attendance of Directors at the board meetings and general meetings

Name of director	Whether independent non-executive director	Required attendance	Attendance at board meeting				Absence	Failed to be present at two meetings in a row	Attendance at general meeting Number of attendance at general meeting
			Attended in person	Attended via electronic communication	Attended by representative				
Wang xing	No	12	12	10	0	0	No	4	
Li Zhenxiong	No	12	12	10	0	0	No	2	
Zhang Xiaoyi	No	12	12	10	0	0	No	3	
Guan Xin	No	12	10	10	2	0	No	0	
Gao Minghui	No	12	12	10	0	0	No	0	
Ye Nong	No	12	12	10	0	0	No	0	
Li Shunzhen	No	12	12	10	0	0	No	1	
Zhang Tao	No	12	11	10	1	0	No	1	
Liu Minghui	Yes	2	2	2	0	0	No	0	
Yang Xiongsheng	Yes	10	9	8	1	0	No	0	
Li Dongru	Yes	7	7	6	0	0	No	0	
Yu Chengting	Yes	5	5	4	0	0	No	0	
Chen Fusheng	Yes	12	12	10	0	0	No	0	
Xiao Jianming	Yes	12	10	10	2	0	No	0	

No. of board meetings held during 2013	12
Including: No. of meetings held on-site	2
No. of meetings held via electronic communication	10
No. of meetings held on-site with electronic communication	0

### 2. Objections raised by Independent Directors

During the reporting period, there were no objections raised by independent directors at the board meetings and other non-board meetings for the year.

## IV. EXPLANATION ON DISCOVERY OF COMPANY RISKS BY THE SUPERVISORY COMMITTEE

The Supervisory Committee has no objection to matters under supervision during the reporting period.

# INTERNAL CONTROL

## I. RESPONSIBILITY STATEMENT AND INSTITUTIONAL IMPROVEMENT ON INTERNAL CONTROL

### The establishment and improvement of the Company's internal control system

General plan for the establishment of internal control system	In accordance with the regulatory requirements on the listed companies under the Company Law, the Securities Law, the Listing Rules of Shanghai Stock Exchange, Supplementary Guidelines of Corporate Internal Control and Internal Control Guidelines for Companies Listed in the Shanghai Stock Exchange, the Company has established and put in place a sound and effective internal control system. In establishing and implementing the internal control system, the Company has taken into account the fundamental factors as follows: objective setting; internal environment; risk assessment; regulatory activities; information & communication; internal supervision. Based on the fundamental system, the Company's internal control system involves the formulation of corporate governance structure, rules of procedures, organizational structure and terms of reference of each department, fundamental management system, duties, workflow procedures and quality manual, covering all aspects from daily and usual production, operation and management. The internal control system is comprehensive with well-defined structure.
Establishment of a sound work plan in the internal control system and its implementation	The Company has conducted tests and assessments on the present status of the internal control. Based on the features of the corporate structure and business procedures, the Company can also identify the major risks of internal control and set up objectives of internal control, rationalize internal procedures, spot defects and make improvement. The Company has outlined the annual work plan based on the key issues and accomplished them. In addition, the Company continues to strive for excellence for internal control system according to the development of the Company.
Establishment of the inspection and supervision department for internal control	The Board office of the Company is the daily operation office of the Audit Committee. In addition, the Company has also established the audit department, which is responsible for special audit work on the Company; and assessment and random inspection of the implementation of the internal control system.
Internal supervision and self-assessment on internal control	The Articles of Association of the Company sets out the provisions on internal audit and the Implementation Rules of Audit Committee and Internal Audit System are formulated. The audit department conducted special audit work on the Company and commenced self-assessment for internal control system in 2013.
The Board's work arrangement on internal control	The Board of the Company reviews the internal control assessment report and makes advice for improvement. The Company has also engaged an audit firm to make assessment on the internal control in respect of financial reports of the Company.
Improvement of internal control system associated with financial audit	In accordance with the relevant laws and regulations under the Accounting Law, the General Rules Governing Enterprise Financial Affairs and Enterprise Accounting System, the Company has established an accounting and audit mechanism and set up a more reasonable and regulated audit system through ERP software. The Company has complied with the relevant financial management requirements and formulated the relevant systems, which set out strict requirements on internal control procedures relating to finance, and the system has been put in place effectively.

# INTERNAL CONTROL

## II. RELEVANT INFORMATION ABOUT AUDIT REPORT ON INTERNAL CONTROL

### 1. The Company disclosed the Board's self-assessment report on the Company's internal control.

The Board of the Company conducted the self-assessment on the internal control during 2013 and no material defects were discovered in terms of the design or implementation of the internal control system. As of 31st December 2013, the Company maintained effective internal control in all material aspects pursuant to the "Basic Standard for Enterprise Internal Control" and relevant requirements. (See the appendix to the annual report published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 29th March 2014 for details).

### 2. The auditor issued the audit opinions on the internal controls in respect of financial reporting of the Company.

The Company engaged the auditor to audit the effectiveness of internal control in relation to the financial report as at 31st December 2013, and the auditor has issued the audit report on the internal controls in relation to the financial report as at 31st December 2013 according to the requirements. (See the appendix to the annual report published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 29th March 2014 for details).

## III. INFORMATION ABOUT LIABILITY INVESTIGATION SYSTEM ON MAJOR ERRORS IN DISCLOSURE OF ANNUAL REPORTS AND RELEVANT IMPLEMENTATION

The Company has formulated the Measures on the Accountability for Material Errors in Annual Report Information Disclosure, which set out the provisions on the accountability subject, procedures, conditions and types. The implementation of such measures can enhance the level of annual report information disclosures and the quality of the Company's information disclosure.



# CORPORATE GOVERNANCE REPORT

## 1. CORPORATE GOVERNANCE PRACTICE

The Company complies with the relevant provisions as set out in the “Code on Corporate Governance Practices” (“Code”) of the Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and strives to improve its level of corporate governance. The implementation of the provisions as set out in the Code is as follow:

### A. Directors

#### A.1 Board Meetings

The Company holds at least one board meeting each quarter. 12 board meetings were held during 2013 and 10 of them were in written resolutions, please refer to page 45 for details of directors’ attendance. The secretary to the Board would consult each director for discussion issues and include them in the agenda for every board meeting to be held. During the reporting period, the notice and preliminary agenda were distributed to the directors at least 14 days before the date of meeting.

All directors keep close contact with the Company Secretary. The Company Secretary is responsible for ensuring that the compliance of the operations of Board with the procedures and advising on the corporate governance and compliance issues. The minutes of the board meetings are compiled and kept by the Company Secretary. Minutes are passed to each director for reference within a reasonable period after the meeting. Directors may seek for independent professional advice at the cost of the Company.

If a substantial shareholder or a director has a conflict of interest in respect of any material matters, a board meeting shall be held. The subject director shall abstain from voting and be excluded from the quorum of the meeting.

#### A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Office were held by Mr. Wang Xing and Mr. Chang Baoqiang respectively.

#### A.3 Composition of the Board

The Company discloses the composition of members of Board in its communications by the director category including Chairman, Executive Directors, Independent Non-Executive Directors and Non-Executive Directors. The Board currently comprises 4 independent non-executive directors, representing 1/3 of the total number of directors. During 2013, 4 directors took up the role of management, representing 1/3 of the total number of directors. This enabled the Board to strictly review and monitor the management procedures of the Company. In order to enrich the shareholders’ understanding of the directors and the composition of the Board of the Company, the Company has published the role of directors and their responsibilities in related media.

#### A.4 Appointment, Election and Removal

The directors of the Company (including non-executive directors) have specific term of appointment. According to the Articles of Association, directors are elected at shareholders’ meeting for a term of three years, subject to re-election upon expiry. However, the term of appointment for independent directors shall not exceed 6 years. The appointment of all directors of the Company shall be approved by the shareholders.

# CORPORATE GOVERNANCE REPORT

## A.5 *Directors' Responsibilities*

In order to ensure the directors' sufficient understanding of the operations and businesses of the Company, each newly appointed director is given a comprehensive induction materials kit upon appointment. This kit sets out the business profile of the Company, responsibilities and obligations of directors and other legal requirements. Apart from that, each non-executive director will receive strategic proposals, business reports, and economics activities analysis from the management regularly in order to execute their functions effectively (including making independent recommendations at board meetings). The non-executive directors shall give directions in the event of any potential interest conflicts; act as members of the committees under the Board; and carefully assess the performance of the issuer.

The Company Secretary is responsible for ensuring that all directors receive the latest updates on the Listing Rules and other statutory requirements.

## A.6 *Provision and Usage of Information*

In order to ensure that obligations are duly performed and informed decision are made by the directors of the Company, the agenda and relevant documents of the board meetings are distributed to all directors within ten days before the date of the meeting. The directors may meet the senior management officers formally or informally before the board meetings. The directors and committee members may review the relevant documents and minutes of the board meetings.

## B. **Remuneration of Director and Senior Management Officers**

Since the establishment of Remuneration and Assessment Committee of the Company, the remuneration and assessment of directors, supervisors and senior management officers are based on the rules of procedure of such committee. Independent professional advice may be sought if necessary in accordance with the stated procedures at the cost of the Company.

## C. **Accountability and Auditing**

### C.1 *Financial Reporting*

The directors would regularly receive integrated reports including strategic proposals, latest updates on various operations, financial objectives, plans and measures from the management. In the annual or interim report, or other announcements regarding price sensitive information and other discloseable financial information, the Board would make a balanced, clear and reasonable review on the Company's state of affairs and prospects.

### C.2 *Internal Control*

The Supervisory Committee of the Company exercises its supervisory rights independently in accordance with laws and regulations to safeguard the legal rights of shareholders, the Company and employees. The number of members and composition of the Supervisory Committee shall comply with the laws and regulations. During 2013, 2 meetings were held and full attendances were recorded in every meeting where the supervisors supervised on behalf of the shareholders the financial conditions of the Company and the performance of obligations of directors and senior management officers and their compliance, and sat in on the board meetings to perform the duties of the Supervisory Committee in a diligent manner.

The Board is responsible for the establishment and maintenance the internal control system of the Company for reviewing the financial, operational and supervisory control procedures so as to safeguard the interests of the shareholders and the assets of the Company. The Board may delegate the authority to the management for implementation of the internal control system. The Audit Committee is responsible for reviewing its effectiveness.

The Internal Audit Department conducts inspection, supervision and assessment on the risks relating to and the importance of various businesses and procedures regularly and when necessary. In addition, corresponding internal management system and procedures are established for monitoring, operation, construction, finance and administration. Inspection will be carried out on a random basis.

# CORPORATE GOVERNANCE REPORT

## C.3 *Audit Committee*

Since its establishment, the Audit Committee has functioned its important role of improving the financial reporting and the transparency of financial arrangement. The Company attaches great attention to the documentation of minutes of the Audit Committee meetings. The minutes draft is prepared by a designated person and will be delivered to the members of the committee within a reasonable period after the meetings. The draft is prepared for collecting the comments from the members and will be kept as minutes once finalized.

## D. **Transfer of Right of the Board**

### D.1 *Management Function*

The Board and the management of the Company both have clearly defined terms of reference and their respective functions are set out in the Articles of Association.

### D.2 *Committees under the Board*

The Strategic Committee, Audit Committee, Nomination Committee, Remuneration and Assessment Committee of the Company are established under the board of directors with respective terms of reference. Each committee performed its duties separately during the reporting period.

## E. **Communication with Shareholders**

### E.1 *Effective Communication*

The Board endeavors to maintain communications with its shareholders. During the 2012 Annual General Meeting and the extraordinary general meetings of 2013, all Executive Directors, and part of the Non-Executive Directors and senior management officers attended the meeting to communicate with its shareholders.

### E.2 *Voting by poll*

Shareholders are informed regularly of the procedures of voting by poll. The procedures of voting by poll are set out in the notice of annual general meeting and circular. Relevant procedures will be also explained at the annual general meeting.

## 2. **SECURITIES TRANSACTION OF DIRECTORS**

During the reporting period, the Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") of the Appendix 10 to the Listing Rules of the Stock Exchange of Hong Kong Limited as regulation for securities transaction of directors. The directors and supervisors of the Company complied with the Model Code and standards on securities transaction of directors as stated in its code of conduct during the reporting period.

# CORPORATE GOVERNANCE REPORT

## 3. BOARD OF DIRECTORS

### (1) Composition of the Board

Currently, there are 12 directors in the Company and 4 of them are independent directors. This is the seventh session of Board of Directors since the establishment of the Company. The term of directors begins from 1st November 2011 or the date of appointment to the date of next election of directors.

12 board meetings (10 of them were in written resolutions) were held during the year. please refer to Attendance of directors at the board meetings and general meetings set out in page 45 for details of the members and the board meetings.

During the reporting period, the directors attended substantially all the board meetings. Representatives were appointed to attend the board meetings and express opinions on the behalf of directors if the directors were unable to attend the board meetings due to office duties.

In addition, according to the Article of Association, notice of a regular board meeting shall be given to all directors at least 10 days before the board meeting. In the course of practical operations, the Company complied with the requirements under Appendix 14A.1.3 to the Listing Rules of the Stock Exchange of Hong Kong Limited where all notices of regular board meetings were despatched 14 days before the board meetings.

The secretary to the Board is responsible for distributing the details of the regular board meetings (including the information on the issues to be considered at the meetings of the specialized committees under the Board) to the directors no later than 5 days before the date of meetings to ensure that all directors understand the issues to be considered at the meetings.

Details of any temporary board meetings held based on the needs of the management of the Company in the form of electronic communication shall be despatched to all directors by means of e-mail and facsimile, and shall allow sufficient time for directors' consideration. The secretary to the Board shall respond to the directors' queries in a timely manner and take proper actions to assist the directors to ensure compliance with the requirements such as the Company Law, Articles of Association and Listing Rules.

Minutes of the board meetings shall be signed by the directors attending the meetings and the minutes-taker, and maintained over a long period of time for inspection by the directors if necessary.

Where the directors consider that material conflicts of interests arise in respect of the connected transactions discussed, the directors involved shall take measures of side-stepping and abstain from voting in respect of such matters.

### (2) Appointment of Directors

Each director of the Company is elected for a term of three years, subject to re-election upon expiry. The term of appointment of the independent non-executive directors shall not exceed six years. The Company shall enter into a Directors' Service Contract with the directors for a term of three years where the term of appointment of any additional directors during the term is less than three years. The appointment or removal of directors shall be approved at the shareholders' meeting. please refer to CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS set out in page 40 for details of the appointment and resignation of directors during 2013.

# CORPORATE GOVERNANCE REPORT

## **(3) Duties of the Board**

The duties and responsibilities of the Board are clearly defined and set out in the Articles of Association of the Company.

Details of the work of the board and its board committees are set out in Attendance of directors at the board meetings and general meetings on page 45.

## **(4) Qualifications and Independence of Independent Non-executive Directors**

Independent board members have different professional backgrounds. They have professional expertise, sound qualifications and extensive experience in the areas of corporate management, financial accounting and manufacturing of machine tools.

Independence of the independent non-executive directors complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules.

## **(5) Implementation of Measures for Ensuring the Performance of Directors' Responsibilities**

The secretary to the Board shall give all the directors relevant materials and updates on the statutory, regulatory and other ongoing responsibilities that the directors of the listed companies shall comply in a timely manner to ensure thorough understanding of their responsibilities, consistent execution of the procedures of the Board and proper compliance with applicable laws and regulations. The Board of the Company is entitled to engage independent professional bodies for such duties based on its power of authority for the performance of its responsibilities or business needs at the reasonable expense of the Company.

## **(6) Relationship between the Members of the Board**

There is no relationship between the members of the Board, particularly between the chairman and the general manager, in terms of finance, business, family and others.

## **4. CHAIRMAN AND GENERAL MANAGER**

The roles of chairman and general manager shall be taken by different persons with clearly segregated duties. The chairman is responsible for the management of the affairs of the Board such as inspecting the implementation progress of the issues approved by the Board. The general manager is responsible for management of operations of the Company and implementation of strategies formulated by the Board. The duties and responsibilities of the general manager are clearly defined and set out in the Articles of Association of the Company.

## **5. TERM OF NON-EXECUTIVE DIRECTORS: According to the Articles of Association, Rules of Procedure for the General Meetings of the Shareholders, and Rules of Procedure for the Meetings of the Board of Directors, the term of the non-executive directors under the 7th session of the Board will expire on 31st October 2014.**

# CORPORATE GOVERNANCE REPORT

## 6. STRATEGIC COMMITTEE, AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION AND ASSESSMENT COMMITTEE ARE UNDER THE BOARD OF DIRECTORS. DETAILS ARE AS FOLLOWS:

No.	Committee under the board of director	Major responsibilities	Chairman	Committee members	Annual meeting and work details
1	Strategic Committee	Conducting research and providing suggestions on the Company's strategic planning, significant investment and financing issues, significant usage of capital and asset utilization	Wang Xing	Wang Xing Gao Minghui Li Zhenxiang Zhang Xiaoyi Li Dongru Xiao Jianming	Conducted research and analysis on the changes in the machine tool market and on the product mix adjustment of the Company
2	Audit Committee	Issuing work reports on regular reports, annual performance results and implementation of the internal control system	Yang Xiongsheng	Yang Xiongsheng Chen Fusheng Guan Xin	Conducted audit on annual report and interim report and Convened special meetings on the construction of internal control system
3	Nomination Committee	Formulating policies for directors' nomination including nomination procedures, handling steps and criteria for selection of director candidates	Yang Xiongsheng	Yang Xiongsheng, Xiao Jianming, Zhang Tao	Reviewed and nominated senior management officers for appointment or removal for the year
4	Remuneration and Assessment Committee	Formulating remuneration policy for executive directors, assessing performance of executive directors and approving terms of the executive directors' service contract	Xiao Jianming	Xiao Jianming, Chen Fusheng, Gao Minghui	Formulated assessment and appraisal system based on operational objectives.

Notes: The chairman of the Company's Strategic Committee is Mr. Wang Xing, Chairman and executive director;

The chairman of the Company's Audit Committee is Mr. Yang Xiongsheng, independent non-executive director;

The chairman of the Company's Nomination Committee is Mr. Yang Xiongsheng, independent non-executive director;

The chairman of the Company's Remuneration and Assessment Committee is Mr. Xiao Jianming, independent non-executive director.

## 7. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors or Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## 8. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

In 2013, none of the Directors or Supervisors had a material interest in the contracts entered into by the Company, its controlling company or subsidiaries of its controlling company.

# CORPORATE GOVERNANCE REPORT

## 9. AUDITOR'S FEE

### The auditor's fee for 2013

Name of the accounting firm: KPMG Huazhen (Special General Partnership) Amount: RMB3,400,000

The major factors for the basis of determination of the auditor's fee paid by the Company are as follows:

- (1) General remuneration offered for auditing service;
- (2) General work load on audit work for the previous accounting period;
- (3) General work load on audit work for the previous engagement.

## 10. RIGHTS OF SHAREHOLDERS

The Company maintains good communication with its shareholders. The major communication channels include the general meetings, website and email of the Company, office facsimile and telephone of the secretary to the Board to enable shareholders to express their opinions or exercise their rights.

## 11. RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of accounts for each financial period which shall present a true and fair view of the state of affairs, results and cash flow of the Group during such period.

The duties of the external auditor of the Company, KPMG Huazhen (Special General Partnership), are set out in the annual report.

# AUDITORS' REPORT

## Auditors' Report

畢馬威華振審字第1400615號

### All Shareholders of Shenji Group Kunming Machine Tool Company Limited:

We have audited the accompanying financial statements of Shenji Group Kunming Machine Tool Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31st December 2013, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

## 1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

## 2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## 3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31st December 2013, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

**KPMG Huazhen**  
**(Special General Partnership)**

Beijing, China

*Certified Public Accountants*  
*Registered in the People's Republic of China*  
Peng Jing  
Zhong Dan  
28th March 2014



# CONSOLIDATED BALANCE SHEET

As at 31st December 2013

Unit: RMB

Item	Note	2013	2012
<b>CURRENT ASSETS:</b>			
Cash at bank and on hand	V. 1	181,805,670.00	98,887,040.73
Bills receivable	V. 2	193,617,520.47	74,194,825.88
Accounts receivable	V. 3	421,649,692.09	296,885,249.95
Prepayments	V. 4	49,867,554.97	38,170,658.92
Other receivables	V. 5	12,645,899.89	13,678,852.21
Inventories	V. 6	838,202,834.59	1,011,927,770.40
Other current assets	V. 7	71,326.31	1,495,385.23
<b>TOTAL CURRENT ASSETS</b>		<b>1,697,860,498.32</b>	<b>1,535,239,783.32</b>
<b>NON-CURRENT ASSETS:</b>			
Long-term equity investments	V. 8	59,035,592.43	59,124,901.68
Fixed assets	V. 9	502,762,114.81	539,598,993.33
Construction in progress	V. 10	299,490,159.28	182,359,702.75
Intangible assets	V. 11	79,861,501.87	69,000,264.01
Goodwill	V. 12	7,296,277.00	7,296,277.00
Long-term deferred expenses	V. 13	1,307,187.73	1,926,385.55
Deferred tax assets	V. 14	64,288,487.72	62,869,275.31
Other non-current assets	V. 15	81,368,385.80	91,336,642.15
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,095,409,706.64</b>	<b>1,013,512,441.78</b>
<b>TOTAL ASSETS</b>		<b>2,793,270,204.96</b>	<b>2,548,752,225.10</b>
<b>CURRENT LIABILITIES:</b>			
Short-term loans	V. 18	299,279,000.00	105,000,000.00
Bills payable	V. 19	67,742,506.00	28,693,005.00
Accounts payable	V. 20	503,339,606.04	506,762,578.19
Advances from customers	V. 21	256,365,206.37	339,341,062.27
Employee benefits payable	V. 22	12,787,886.41	25,500,401.68
Taxes payable	V. 23	24,202,207.26	12,322,840.16
Dividends payable	V. 24	135,898.49	135,898.49
Other payables	V. 25	121,768,252.44	73,419,209.14
Non-current liabilities due within one year	V. 27	418,509.00	418,509.00
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,286,039,072.01</b>	<b>1,091,593,503.93</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term payables	V. 28	1,492,463.90	1,705,672.90
Special payables	V. 29	20,947,539.29	15,167,565.87
Provisions	V. 26	7,172,981.31	9,921,145.94
Other non-current liabilities	V. 30	104,702,441.79	66,773,920.91
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>134,315,426.29</b>	<b>93,568,305.62</b>
<b>TOTAL LIABILITIES</b>		<b>1,420,354,498.30</b>	<b>1,185,161,809.55</b>

# CONSOLIDATED BALANCE SHEET

As at 31st December 2013

Unit: RMB

Item	Note	2013	2012
<b>Shareholders' equity:</b>			
Share capital	V. 31	531,081,103.00	531,081,103.00
Capital reserve	V. 32	27,303,321.72	27,303,321.72
Surplus reserve	V. 33	117,077,019.33	116,508,002.60
Retained earnings	V. 34	650,275,276.12	643,404,128.51
Total equity attributable to shareholders of the Company		1,325,736,720.17	1,318,296,555.83
Minority interests		47,178,986.49	45,293,859.72
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>1,372,915,706.66</u></b>	<b><u>1,363,590,415.55</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>2,793,270,204.96</u></b>	<b><u>2,548,752,225.10</u></b>

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
Wang Xing

The person in charge of accounting affairs:  
Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)

# BALANCE SHEET

As at 31st December 2013

Item	Note	2013	Unit: RMB 2012
<b>CURRENT ASSETS:</b>			
Cash at bank and on hand		167,060,232.54	71,927,250.50
Bills receivable		170,824,626.17	51,132,033.52
Accounts receivable	X. 1	331,925,136.42	212,997,106.53
Prepayments		33,096,378.41	11,023,576.86
Dividends receivable		11,000,000.00	11,000,000.00
Other receivables	X. 2	15,690,264.77	18,962,601.80
Inventories		631,067,009.95	843,844,975.13
Other current assets		–	1,495,385.23
<b>TOTAL CURRENT ASSETS</b>		<b><u>1,360,663,648.26</u></b>	<b><u>1,222,382,929.57</u></b>
<b>NON-CURRENT ASSETS:</b>			
Long-term equity investments	X. 3	82,583,858.28	82,673,167.53
Fixed assets		467,223,213.57	496,634,816.84
Construction in progress		299,113,212.28	182,094,281.75
Intangible assets		68,309,304.39	57,147,408.97
Long-term deferred expenses		1,165,250.73	1,727,777.55
Deferred tax assets		54,243,236.75	53,272,355.95
Other non-current assets		81,368,385.80	91,336,642.15
<b>TOTAL NON-CURRENT ASSETS</b>		<b><u>1,054,006,461.80</u></b>	<b><u>964,886,450.74</u></b>
<b>TOTAL ASSETS</b>		<b><u>2,414,670,110.06</u></b>	<b><u>2,187,269,380.31</u></b>
<b>CURRENT LIABILITIES:</b>			
Short-term loans		284,279,000.00	90,000,000.00
Bills payable		47,230,000.00	–
Accounts payable		355,444,252.73	394,827,490.92
Advances from customers		134,336,955.44	205,275,982.82
Employee benefits payable		10,997,980.36	23,937,684.85
Taxes payable		22,465,561.65	11,755,291.00
Other payables		123,094,286.24	71,088,145.09
Non-current liabilities due within one year		418,509.00	418,509.00
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>978,266,545.42</u></b>	<b><u>797,303,103.68</u></b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term payables		1,492,463.90	1,705,672.90
Special payables		20,947,539.29	15,167,565.87
Provisions		7,172,981.31	9,921,145.94
Other non-current liabilities		104,702,441.79	66,773,920.91
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b><u>134,315,426.29</u></b>	<b><u>93,568,305.62</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>1,112,581,971.71</u></b>	<b><u>890,871,409.30</u></b>

# BALANCE SHEET

As at 31st December 2013

Item	Note	Unit: RMB	
		2013	2012
<b>Shareholders' equity:</b>			
Share capital		531,081,103.00	531,081,103.00
Capital reserve		27,303,321.72	27,303,321.72
Surplus reserve		117,077,019.33	116,508,002.60
Retained earnings		<u>626,626,694.30</u>	<u>621,505,543.69</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>1,302,088,138.35</u></b>	<b><u>1,296,397,971.01</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>2,414,670,110.06</u></b>	<b><u>2,187,269,380.31</u></b>

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
Wang Xing

The person in charge of accounting affairs:  
Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)

# CONSOLIDATED INCOME STATEMENT

For the year 2013

Item	Note	Unit: RMB	
		2013	2012
<b>1. Operating income</b>	V. 35	<b>1,062,835,255.27</b>	<b>1,086,311,095.78</b>
<b>2. Less: Operating costs</b>	V. 35	<b>837,116,958.98</b>	<b>880,453,359.74</b>
Business taxes and surcharges	V. 36	7,286,164.47	7,155,195.74
Selling and distribution expenses	V. 37	81,664,578.30	96,628,154.07
General and administrative expenses	V. 38	162,670,709.85	160,374,456.94
Financial expenses	V. 39	7,118,065.55	1,797,725.19
Impairment losses ("()"for reversal)	V. 41	(2,353,342.17)	52,262,313.67
Add: Investment income ("()"for loss)	V. 40	589,379.17	2,996,374.90
Including: Income from investments in associates and jointly controlled enterprises		589,379.17	1,055,320.73
<b>3. Operating profit ("()"for losses)</b>		<b>(30,078,500.54)</b>	<b>(109,363,734.67)</b>
Add: Non-operating income	V. 42	41,746,283.98	15,558,232.30
Including: gains from disposal of non-current assets		1,270,162.87	51,454.39
Less: Non-operating expenses	V. 43	3,002,862.67	1,434,771.49
Including: losses from disposal of non-current assets		146,556.46	516,205.94
<b>4. Profit before income tax ("()" for total losses)</b>		<b>8,664,920.77</b>	<b>(95,240,273.86)</b>
Less: Income tax expenses ("()"for income tax benefit)	V. 44	(660,370.34)	(12,944,178.86)
<b>5. Net profit for the year ("()"for net losses)</b>		<b>9,325,291.11</b>	<b>(82,296,095.00)</b>
Net profit attributable to shareholders of the Company ("()"for net losses)		7,440,164.34	(73,220,171.53)
Minority interests		1,885,126.77	(9,075,923.47)
<b>6. Earnings per share ("()"for losses per share):</b>			
(1) Basic earnings per share ("()"for losses per share)	V. 45	0.01	(0.14)
(2) Diluted earnings per share ("()"for losses per share)	V. 45	0.01	(0.14)
<b>7. (1) Other comprehensive income that will not be reclassified to profit or loss:</b>		–	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss:		–	–
Net amount of other comprehensive income items after deducting income tax respectively		–	–
<b>8. Total comprehensive income ("()"for total comprehensive losses)</b>		<b>9,325,291.11</b>	<b>(82,296,095.00)</b>
Total comprehensive income attributable to shareholders of the Company ("()"for total comprehensive losses)		7,440,164.34	(73,220,171.53)
Total comprehensive income attributable to minority interests ("()"for total comprehensive losses)		1,885,126.77	(9,075,923.47)

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
Wang Xing

The person in charge of accounting affairs:  
Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)

# INCOME STATEMENT

For the year 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Operating income</b>	X. 5	<b>916,579,330.62</b>	<b>898,323,213.33</b>
Less: Operating costs	X. 5	729,393,037.66	723,846,145.54
Business taxes and surcharges		6,492,294.09	6,468,638.15
Selling and distribution expenses		74,693,987.80	89,872,785.78
General and administrative expenses		139,159,453.46	139,499,723.68
Financial expenses		5,462,079.74	338,189.60
Impairment losses ("()"for reversal)		(5,371,878.70)	31,778,078.70
Add: Investment income ("()"for loss)	X. 6	589,379.17	1,055,320.73
Including: Income from investments in associates and jointly controlled enterprises		589,379.17	1,055,320.73
<b>2. Operating profit ("()"for losses)</b>		<b>(32,660,264.26)</b>	<b>(92,425,027.39)</b>
Add: Non-operating income		40,689,528.74	14,822,194.63
Including: gains from disposal of non-current assets		506,407.63	21,275.62
Less: Non-operating expenses		2,796,519.85	1,064,896.64
Including: losses from disposal of non-current assets		115,863.64	516,205.94
<b>3. Profit before income tax ("()" for total losses)</b>		<b>5,232,744.63</b>	<b>(78,667,729.40)</b>
Less: Income tax expenses ("()"for income tax benefit)		(457,422.71)	(16,082,396.08)
<b>4. Net profit for the year ("()"for net losses)</b>		<b>5,690,167.34</b>	<b>(62,585,333.32)</b>
5. (1) other comprehensive income that will not be reclassified to profit or loss:		-	-
(2) other comprehensive income that may be reclassified subsequently to profit or loss:		-	-
net amount of other comprehensive income items after deducting income tax respectively		-	-
<b>6. Total comprehensive income</b>		<b>5,690,167.34</b>	<b>(62,585,333.32)</b>

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
Wang Xing

The person in charge of accounting affairs:  
Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)

# CONSOLIDATED CASH FLOW STATEMENT

For the year 2013

Unit: RMB

Item	Note	2013	2012
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		823,104,077.28	1,052,291,530.94
Refund of taxes		5,779,973.42	–
Cash received from transferring accounts receivable		16,384,200.00	–
Cash received relating to other operating activities	V. 47(1)	41,251,265.10	29,708,660.83
		<u>886,519,515.80</u>	<u>1,082,000,191.77</u>
Sub-total of cash inflows from operating activities			
Cash paid for goods and services		565,968,339.19	682,112,596.52
Cash paid to and for employees		268,260,623.97	300,519,348.00
Cash paid for all types of taxes		89,523,166.64	64,606,683.76
Cash paid relating to other operating activities	V. 47(2)	40,355,838.04	27,190,552.19
		<u>964,107,967.84</u>	<u>1,074,429,180.47</u>
Sub-total of cash outflows from operating activities			
Net cash flows from operating activities	V. 48(1)	<u>(77,588,452.04)</u>	<u>7,571,011.30</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from return on investments		678,688.42	5,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,945,344.19	222,615.77
Net cash received from disposal of a subsidiary		–	943,758.31
Cash received from security deposits		3,759,527.95	46,013,203.52
Cash received relating to other investing activities		–	14,000,000.00
		<u>6,383,560.56</u>	<u>66,179,577.60</u>
Sub-total of cash inflows from investing activities			
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		68,620,411.97	102,067,300.63
Decrease in cash from loss of control of a subsidiary		–	5,970,608.35
Cash paid for security deposits		36,964,295.80	38,830,140.39
		<u>105,584,707.77</u>	<u>146,868,049.37</u>
Sub-total of cash outflows from investing activities			
Net cash flows from investing activities		<u>(99,201,147.21)</u>	<u>(80,688,471.77)</u>

# CONSOLIDATED CASH FLOW STATEMENT

For the year 2013

Unit: RMB

Item	Note	2013	2012
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		339,279,000.00	120,000,000.00
Cash received relating to other financing activities	V. 47(3)	47,230,000.00	–
Sub-total of cash inflows from financing activities		<u>386,509,000.00</u>	<u>120,000,000.00</u>
Cash repayments of borrowings		145,000,000.00	115,000,000.00
Cash paid for distribution of dividends, profit or repayment of interest		14,746,923.26	17,822,306.62
Sub-total of cash outflows from financing activities		<u>159,746,923.26</u>	<u>132,822,306.62</u>
Net cash flows from financing activities		<u>226,762,076.74</u>	<u>(12,822,306.62)</u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b><u>(258,616.07)</u></b>	<b><u>(190,459.70)</u></b>
<b>5. Net increase in cash and cash equivalents (“”)for net decrease)</b>			
Add: Cash and cash equivalents at the beginning of the year	V. 48(1)	49,713,861.42	(86,130,226.79)
		<u>89,677,792.83</u>	<u>175,808,019.62</u>
<b>6. Cash and cash equivalents at the end of the year</b>	V. 48(2)	<b><u>139,391,654.25</u></b>	<b><u>89,677,792.83</u></b>

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
Wang Xing

The person in charge of accounting affairs:  
Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)



# CASH FLOW STATEMENT

For the year 2013

Item	Note	2013	Unit: RMB 2012
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		687,568,386.28	889,096,198.05
Refund of taxes		5,779,973.42	-
Cash received from transferring accounts receivable		16,384,200.00	-
Cash received relating to other operating activities		40,830,659.90	28,769,904.32
Sub-total of cash inflows from operating activities		<u>750,563,219.60</u>	<u>917,866,102.37</u>
Cash paid for goods and services		471,087,921.35	561,563,371.85
Cash paid to and for employees		242,173,266.91	273,375,993.49
Cash paid for all types of taxes		79,014,481.00	51,460,490.21
Cash paid relating to other operating activities		24,052,767.00	21,056,501.75
Sub-total of cash outflows from operating activities		<u>816,328,436.26</u>	<u>907,456,357.30</u>
Net cash flows from operating activities	X. 7 (1)	<u>(65,765,216.66)</u>	<u>10,409,745.07</u>
<b>2. Cash flows from investing activities:</b>			
Net cash received from disposal of subsidiaries		-	1,000,000.00
Cash received from return on investments		678,688.42	6,989,605.81
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		153,800.00	182,685.00
Cash received from security deposits		-	4,000,000.00
Cash received relating to other investing activities		-	14,000,000.00
Sub-total of cash inflows from investing activities		<u>832,488.42</u>	<u>26,172,290.81</u>
Cash paid for security deposits		35,398,295.80	-
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		67,679,108.44	100,968,224.86
Sub-total of cash outflows from investing activities		<u>103,077,404.24</u>	<u>100,968,224.86</u>
Net cash flows from investing activities		<u>(102,244,915.82)</u>	<u>(74,795,934.05)</u>
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		324,279,000.00	90,000,000.00
Cash received relating to other financing activities		47,230,000.00	-
Sub-total of cash inflows from financing activities		<u>371,509,000.00</u>	<u>90,000,000.00</u>
Cash repayments of borrowings		130,000,000.00	80,000,000.00
Cash paid for distribution of dividends, profit or repayment of interest		13,505,565.21	16,583,673.34
Sub-total of cash outflows from financing activities		<u>143,505,565.21</u>	<u>96,583,673.34</u>
Net cash flows from financing activities		<u>228,003,434.79</u>	<u>(6,583,673.34)</u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>(258,616.07)</u>	<u>(190,459.70)</u>
<b>5. Net increase in cash and cash equivalents ("()" for net decrease)</b>	X. 7 (1)	<b>59,734,686.24</b>	<b>(71,160,322.02)</b>
Add: Cash and cash equivalents at the beginning of the year		71,927,250.50	143,087,572.52
<b>6. Cash and cash equivalents at the end of the year</b>	X. 7 (2)	<u><b>131,661,936.74</b></u>	<u><b>71,927,250.50</b></u>

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
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The head of the accounting department:  
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(Seal of the Company)

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

Item	Note	2013					Total	2012					Total
		Attributable to shareholders of the Company						Attributable to shareholders of the Company					
		Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests		Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests	
1. Balance at the beginning of the year		531,081,103.00	27,303,321.72	116,508,002.60	643,404,128.51	45,293,859.72	1,363,590,415.55	531,081,103.00	27,303,321.72	116,508,002.60	727,245,922.10	54,546,448.70	1,456,684,798.12
2. Changes in equity for the year ("I" for increase)													
(1) Net profit for the year		-	-	-	7,440,164.34	1,885,126.77	9,325,291.11	-	-	-	(73,220,171.53)	(9,075,923.47)	(82,296,095.00)
(2) Other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of (1) and (2)		-	-	-	7,440,164.34	1,885,126.77	9,325,291.11	-	-	-	(73,220,171.53)	(9,075,923.47)	(82,296,095.00)
(3) Appropriation of profits	V. 34												
1. Appropriation of surplus reserve		-	-	569,016.73	(569,016.73)	-	-	-	-	-	-	-	-
2. Distribution to shareholders		-	-	-	-	-	-	-	-	-	(10,621,622.06)	-	(10,621,622.06)
(4) Others													
1. Changes in Minority interests from disposal of a subsidiary and loss of control of a subsidiary		-	-	-	-	-	-	-	-	-	-	(176,665.51)	(176,665.51)
Sub-total of (3) and (4)		-	-	-	-	-	-	-	-	-	(10,621,622.06)	(176,665.51)	(10,798,287.57)
3. Balance at the end of the year		531,081,103.00	27,303,321.72	117,077,019.33	650,275,276.12	47,178,986.49	1,372,915,706.66	531,081,103.00	27,303,321.72	116,508,002.60	643,404,128.51	45,293,859.72	1,363,590,415.55

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

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The head of the accounting department:  
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(Seal of the Company)

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

Item	Note	2013					2012				
		Share capital	Capital reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
1. Balance at the beginning of the year		531,081,103.00	27,303,321.72	116,508,002.60	621,505,543.69	1,296,397,971.01	531,081,103.00	27,303,321.72	116,508,002.60	694,712,499.07	1,369,604,926.39
2. Changes in equity for the year ("0" for decrease)											
(1) Net profit for the year		-	-	-	5,690,167.34	5,690,167.34	-	-	-	(62,585,333.32)	(62,585,333.32)
(2) Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Sub-total of (1) and (2)		-	-	-	5,690,167.34	5,690,167.34	-	-	-	(62,585,333.32)	(62,585,333.32)
(3) Appropriation of profits	V. 34										
1. Appropriation of surplus reserve		-	-	569,016.73	(569,016.73)	-	-	-	-	-	-
2. Distribution to shareholders		-	-	-	-	-	-	-	-	(10,621,622.06)	(10,621,622.06)
3. Balance at the end of the year		531,081,103.00	27,303,321.72	117,077,019.33	626,626,694.30	1,302,088,138.35	531,081,103.00	27,303,321.72	116,508,002.60	621,505,543.69	1,296,397,971.01

The financial statements were approved by the Board of Directors of the Company on 28th March 2014.

Legal representative of the Company:  
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Zhang Zeshun

The head of the accounting department:  
Li Hongning

(Seal of the Company)

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (I). CORPORATE INFORMATION

Shenji Group Kunming Machine Tool Company Limited (the “Company”) was established in the People’s Republic of China (“the PRC”) with limited liability on 19th October 1993. The place of registration of the Company is 23 Ciba Road, Kunming City, Yunnan Province, the PRC.

The Company is a stock company limited by restructuring from Kunming Machine Tool Plant approved by [1993] no. 173 Ti Gai Sheng issued by the State Economic Reform Commission. The name at establishment was Kunming Machine Tool Company Limited (“Kunji”). Kunming Machine Tool Plant used its assets and liabilities at 30th June 1993 to invest in the Company. The above assets and liabilities were assessed by Shanghai Accounting Firm. The assessed net assets were RMB179,258,700. The assessment was approved by [1993] no. 420 Guo Zi Ping issued by the National State-owned assets Administration Commission. According to [1993] no. 114 Guo Zi Qi Han Fa issued by the National State-owned assets Administration Commission, the assessed state-owned land use rights included in the above net assets should be reduced by RMB34,217,100, meanwhile, 82.74% of the adjusted net assets (assessment value was RMB145,041,600) was discounted to 120,007,400 shares with par value RMB1.00 per share. The original investors of Kunming Machine Tool Plant, Yunnan Provincial People’s Government and Kunming Jinghua Company Ltd., held 102,397,700 and 17,609,700 shares respectively.

Approved by [1993] no. 50 Zheng Wei Fa issued by the Security Commission of the State Council, Kunji issued and listed 65,000,000 H shares with par value RMB1.00 per share in the Stock Exchange of Hong Kong Limited in December 1993. Then, it issued and listed 60,000,000 A shares with par value RMB1.00 per share in Shanghai Stock Exchange in January 1994.

On 25th December 2000, Xi’an Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”) entered into Shares Transfer Agreement of Jiaoda Kunji High-Tech Company Limited with the People’s Government of Yunnan Province (“Yunnan Government”) whereby Yunnan Government would transfer 71,052,146 state-owned shares of the Company to Jiaotong Group. The transaction was approved by [2001] no. 283 Cai Qi – the Approval of State-owned Shares Transfer of Jiaoda Kunji High-tech Company Limited issued by the Ministry of Finance of the PRC. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became the largest shareholder of the Company.

With effective from 29th March 2002, the Company used the name “Jiaoda Kunji High Tech Company Limited” (“Jiaoda Kunji”) jointly approved by the State Administration for Industry and Commerce of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC after completing the business registration for change of company name in Yunnan Commercial and Industrial Administration Bureau.

On 15th September 2005, Jiaotong Group and Shenyang Machine Tool (Group) Co., Ltd. (“Shenji Group”) entered into a Share Transfer Agreement. Shenji Group agreed to purchase 71,052,146 shares of Jiaoda Kunji held by Jiaotong Group. The share transfer was approved pursuant to the “Written Reply Regarding the Transfer of State-owned Shares of Jiaoda Kunji High-tech Co., Ltd.” (Guo Zi Chan Quan [2006] No. 628) issued by State-owned Assets Supervision and Administration Committee of the State Council and the Opinion on Information Disclosure of the Acquisition of Jiaoda Kunji High-tech Co., Ltd. by Shenyang Machine Tool (Group) Co., Ltd. (Zheng Jian Gong Si [2006] No. 255) by China Securities Regulation Committee. On 1st December 2006, the register of equity transfer was completed and Shenji Group became the largest shareholder of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (I). CORPORATE INFORMATION *(Continued)*

On 4th April 2006, pursuant to the “Written Reply of the People’s Government of Yunnan Province Regarding the Transfer of Title of Jiaoda Kunji High-Tech Co., Ltd.” issued by the People’s Government of Yunnan Province and the “Written Reply of Yunnan State-owned Assets Supervision and Administration Committee regarding the Grant of Authorization to Yunnan State-owned Assets Operation Co., Ltd. to Exercise the Shareholders’ Right of Jiaoda Kunji High-tech Co., Ltd.” issued by Yunnan State-owned Assets Supervision and Administration Committee, 31,345,554 state-owned shares held by the People’s Government of Yunnan were transferred to Yunnan State-owned Assets Operation Co., Ltd. (“Yunnan State-owned Assets Operation Co., Ltd.”) at nil consideration on 31st December 2005. The share transfer was approved by the State-owned Assets Supervision and Administration Committee of the State Council pursuant to the “Written Reply regarding the Transfer of Part of the State-owned Shares of Jiaoda Kunji High-Tech Co., Ltd.” (Guo Zi Chan Quan [2006] No. 1412). The transfer was completed on 19th January 2007.

On 25th January 2007, the “Written Reply regarding the Transfer of Shares and Increase in Share of Jiaoda Kunji High-Tech Co., Ltd.” (Shang Zi Pi [2007] No. 133) was issued by the Ministry of Commerce of the PRC to approve the share reform proposal of the Company, pursuant to which a total of 38,235,855 shares (as to 28,091,955 A Shares and 10,143,900 H Shares respectively) were transferred from the capital reserve to all the shareholders whose names appeared on the Company’s register of members on 26th February 2007 on the basis of 1.5606 shares for every 10 shares held. On 5th March 2007, the holders of non-circulating shares of the Company made the payment with a total of 18,728,355 shares held as consideration to the holders of circulating A Shares on the basis of 2.7 shares for every 10 shares held. The new A Shares were listed on 7th March 2007. Of 18,728,355 shares, Shenji Group, Yunnan State-owned Assets Operation Co., Ltd. and Jinghua Company contributed as to 11,088,398 shares, 4,891,787 shares and 2,748,170 shares respectively. After implementation of the consideration arrangement, non-circulating shares held by the holders of non-circulating shares of the Company became tradable and listed.

On 23rd March 2007, approved by the shareholders’ meeting of Jiaoda Kunji, Jiaoda Kunji High-Tech Company changed its name to Shenji Group Kunming Machine Tool Company Limited.

Approved by the annual general meeting of the Company held on 29th June 2007, based on total share capital of 283,243,255 shares of the Company, increased shares on the basis of 5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 141,621,628 shares. After share increase, total issued shares of the Company was 424,864,883 shares, and total registered capital of the Company was RMB424,864,883. The resolution was approved by the “Written Reply Regarding the Change of Name and Increase in Share Capital of Jiaoda Kunji High-Tech Co., Ltd.” (Shang Zi Pi [2007] No. 1390) issued by the Ministry of Commerce of the PRC.

Pursuant to the “Written Reply on the Change in Shareholders of the Six Listed Companies including Yunnan Salt & Chemical Industry Co., Ltd.” (Guo Zi Chan Quan [2009] No. 1182) issued by the State-owned Assets Supervision and Administration Commission of the State Council on 22nd October 2009, 47,018,331 shares of the Company held by Yunnan State Owned Assets Operation Co. Ltd. were transferred to Yunnan Industrial Investment Holding Group Co., Ltd. (“Yunnan Industrial Investment”) to perform the obligations as the contributor of state-owned assets.

Approved by the shareholders’ meetings held on 23rd June 2010, based on total share capital of 424,864,883 shares of the Company, increased shares on the basis of 2.5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 106,216,220 shares. After share increase, total issued shares of the Company would be 531,081,103 shares, and total registered capital of the Company would be RMB531,081,103. The resolution was approved by the “Written Reply from the Department of Commerce of Yunnan Province Concerning its Consent to the Increase in Share Capital by Capitalization of the Capital Reserve by Shenji Group Kunming Machine Tool Company Limited” (Yun Shang Zi [2010] No. 130).

The Company and its subsidiaries (collectively the “Group”) mainly engage in development, design, production and sales of machine tool series products and accessories, sensor and turbo tables and turbo machine and sintering fans series products and accessories. The term of operation of the Company will expire on 31st October 2050.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES

### 1. Basis of preparation of financial statements

The financial statements of the Company have been prepared on a going concern basis.

### 2. Statement of compliance with the corporate accounting standards

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises" issued by the Ministry of Finance. These financial statements provide a true and complete presentation of the consolidated financial position and financial position as at 31st December 2013, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year 2013.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" as revised by the CSRC in 2010 in relation to the disclosure requirements of the financial statements and their accompanying notes.

### 3. Accounting period

The accounting period commences on 1st January and ends on 31st December each year.

### 4. Functional currency

The functional currency of the Company is Renminbi ("RMB"). The Company presents the financial statements in RMB. The functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

### 5. Accounting treatment for business combination under common control and not under common control

#### (1) *Business combination under common control*

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being acquired. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve (or capital premium). If the share premium under capital reserve (or capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings. Expenses that are directly attributable to business combination are expense in the profit and loss at the period incurred. The combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 5. Accounting treatment for business combination under common control and not under common control *(Continued)*

#### (2) *Business combinations not under common control*

A business combination 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 both before and after the combination. The sum of the assets paid (including the equity interest of acquiree held before the date of acquisition) and liabilities incurred or committed and the equity securities issued by the Group who as an acquirer for obtaining the controlling interests of the acquiree measured at fair value on the date of acquisition minus the fair value of the acquiree's identifiable net assets in the combination, if the difference is positive, it should be recognized as goodwill (please refer to note II. 17), or if the difference is negative, it shall be included in the profit or loss for the period. The transaction expenses of issuing equity securities or liability securities as consideration for combination are included as the initial measurement amount of equity securities or liability securities. The direct expenses incurred in business combination shall be included in the profit or loss for the period. The difference between the fair value of assets paid and its book value should be included in the profit or loss for the period. The Group shall recognize acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date that meet the criteria for recognition. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

### 6. Preparation of consolidated financial statements

The consolidated financial statements are based on control for the scope of consolidation, and comprise the Company and its subsidiaries. Control is the power to govern the invested party, through participating the related activities in the invested party to enjoy changeable return and capable to use its power to impact its return. In judging whether the Group has the power over the invested party, the Group only consider the substantive rights in relation to the invested party (including the substantive rights which the Group and other parties enjoy.) The financial position, financial performance and cash flow of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that common control was established. Therefore, the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the acquired subsidiaries are included in the consolidated financial statements from the acquisition date, and based on the fair value of those identifiable assets and liabilities at the acquisition date.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasured its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognized as investment income for the current period; the amount recognized in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the investment cost of newly acquired long-term equity investment and the Company's share of its subsidiary's identifiable net assets and the difference between the consideration received for disposal of long-term equity investment and the Company's share of subsidiary's identifiable net assets are adjusted to the capital reserve (share premium) in the consolidated balance sheet. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 6. Preparation of consolidated financial statements *(Continued)*

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group ceases to recognize the assets, liabilities, minority interests and other related items of the interests related to the subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any profit or loss incurred is recognized as investment income for the current period when control is lost.

Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss and comprehensive income attributable to minority shareholders are presented separately in the consolidated income statement below the net profit and total comprehensive income line items.

When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealized profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is evidence of impairment.

### 7. Determination of cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

### 8. Foreign currency transactions

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China or a cross rate determined based on quoted exchange rates.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognized in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets for capitalization (see Note II. 15). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the foreign exchange rate resulting from transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognized in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Financial instruments

Financial instruments of the Group comprise cash at bank and on hand, receivables, payables, loans, and share capital, etc.

#### (1) *Recognition and measurement of financial assets and financial liabilities*

A financial asset or financial liability is recognized in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition, based on the purpose of acquiring assets or assuming liabilities: loans and receivables and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value and any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

- Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are stated at amortized cost using the effective interest method.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are stated at amortized cost using the effective interest method.

#### (2) *Presentation of financial assets and financial liabilities*

Financial assets and financial liabilities are presented separately in the balance sheet and shall not be offset. However, a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when both of the following conditions are satisfied:

- the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable;
- the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Financial instruments *(Continued)*

#### (3) *Derecognition of financial assets and financial liabilities*

A financial asset is derecognized if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirety meets the criteria of the derecognition, the difference between the two amounts below is recognized in profit or loss:

- carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gains or loss that has been recognized directly in equity.

The Group derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

#### (4) *Impairment of financial assets*

The carrying amounts of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

Objective evidence that a financial asset is impaired includes, but is not limited to the following:

- (a) significant financial difficulty of the issuer or borrower;
- (b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (c) strong probability that the borrower will enter bankruptcy or go through another type of financial reorganisation;
- (d) the disappearance of an active market for the financial asset due to serious financial difficulties on the part of the issuer;
- (e) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (f) a significant or prolonged decline in the fair value of an equity instrument investment to below cost.

For the measurement of impairment of receivables, refer to Note II. 10.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Financial instruments *(Continued)*

#### (5) Equity instruments

An equity instrument is a contract that proves the residual interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognized in shareholders' equity.

Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from Shareholders' equity.

### 10. Impairment of receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The Group discounts the carrying amount of the receivables to its present value and the discounted amount is recognized as impairment loss of asset, all impairment losses are recognized in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable figures reflecting present economic conditions.

If, after an impairment loss has been recognized on receivables, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

#### (a) Significant single accounts receivable which being made single bad debt provision:

Judgment basis or criteria for receivables that are individually significant	1 type of trade receivable (trade receivables): criteria: RMB7,000,000 for single accounts receivable;
	2 type of other receivable (other receivables): criteria: RMB3,500,000 for single accounts receivable;
	3 type of personal accounts receivable (other receivables): criteria: RMB100,000 for single accounts receivable.

Method of provision for bad and doubtful debts for receivables that are individually significant and assessed individually

The bad debt provision made for individually significant accounts receivable adopted both on individual basis and on collective combination basis. First by individual impairment test, if the present value of estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate is less than its carrying value, the difference should be recognized as impairment loss and should make provision. If the impairment not being incurred after the individual test, should the credit risk characteristics are consistent with other receivables, the accounts receivable should combine with other receivables to provide bad debt provision by credit risk characteristic combination (see (b) below). If the impairment not being incurred after the individual test, should the credit risk characteristics are not consistent with other receivables, then no additional impairment test will be carried out.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES (Continued)

### 10. Impairment of receivables (Continued)

(b) *Insignificant single receivables which are provided for bad and doubtful debts:*

Reasons for and method of provision for bad and doubtful debts for receivables that are individually insignificant	Individual impairment test will be conducted to insignificant single receivables if there is any objective evidence which shows that such receivables incur impairment or there is any change in their credit risk characteristics which makes them different from those of other receivables in the same group, and provision for bad and doubtful debts will be made according to the difference between the present value of future cash flow and the book value.
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(c) *Bad debt provision for accounts receivable by combination:*

For accounts receivable not impaired after individual test which stated in (a) above, the Group will include it in the accounts receivable combination with credit risk characters to do the test again.

Basis for determining groups	Divide the accounts receivable into two groups based on companies' nature
Group 1	Receivables from third parties
Group 2	Receivables from related parties
Methods for providing bad debt provision by different groups	
Group 1	Ageing analysis
Group 2	Individual assessment

In group 1, provision for bad debts made by ageing analysis:

<b>Aging</b>	<b>Percentage of provision for trade receivable (%)</b>	<b>Percentage of provision for other receivables (%)</b>
Within 1 year (including 1 year)	5%	5%
1-2 years (including 2 years)	30%	50%
2-3 years (including 3 years)	60%	100%
Over 3 years	95%	100%

In group 2, individual impairment test will be conducted to accounts receivable of related parties at the end of the year. Should objective evidence shows that it incurred impairment, according to the difference between the present value of future estimated cash flow and the book value, assets impairment should be recognized. Should no objective evidence show that it has impairment, no bad debt provision should be made.

### 11. Inventories

(1) *Classification and cost*

Inventories include raw material, work in process, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenses that to help deliver the inventories to the current location and situation. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 11. Inventories *(Continued)*

#### (2) *Determination of cost of inventories*

The actual cost of inventories is calculated using the weighted average method.

Consumables including low-value consumables and packaging materials are amortized in full when received for use. The amounts of the amortization are included in the cost of the related assets or profit or loss.

#### (3) *The underlying factors in the determination of net realizable value of inventories and the basis of provision for diminution in value of inventories*

Inventories are measured at the lower of cost and net realizable value at the balance sheet date.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale. The net realizable value of materials held for use in the production of inventories is measured based on the net realizable value of the finished goods in which they will be incorporated. The net realizable value of the quantity of inventory held to satisfy sales or service contracts is based on the contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by the Group, the net realizable value of the excess portion of inventories shall be based on general selling prices.

Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories and charged to profit or loss.

#### (4) *Inventory system*

The Group maintains a perpetual inventory system for raw material and finished goods and a periodic inventory system for semi-finished goods.

### 12. Long-term equity investments

#### (1) *Initial investment cost*

##### (a) Long-term equity investments acquired through a business combination

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.
- For long-term equity investments obtained through business combinations involving enterprises not under common control, the initial investment cost represents the aggregate of the fair values of assets transferred, liabilities assumed, and equity securities issued by the Company, in exchange for control of the acquiree. For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

##### (b) Long-term equity investments acquired other than through a business combination

- An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Group acquires the investment by cash, or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 12. Long-term equity investments *(Continued)*

#### (2) *Subsequent measurement and recognition of profit and loss*

##### (a) Investments in subsidiaries

In the Company's financial statements, long-term equity investments in subsidiaries are measured subsequently by using the cost method. Cash dividends or profit distributions declared by subsidiaries and attributed to the Company shall be recognized as investment income (not identifying whether it is the net profit realized by investee before or after investment), except those that have been declared but unpaid at the time of acquisition and therefore included in the price paid or consideration.

Investments in subsidiaries are stated at cost less provision for impairment in the balance sheet.

In the Group's consolidated financial statements, long-term equity investments in subsidiaries are accounted for in accordance with the principles described in Note II. 6.

##### (b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control between the Group and other parties (see Note II. 12(3)), and it's an arrangement of only enjoying its rights of net assets.

An associate is an enterprise over which the Group has significant influence (see Note II. 12(3)).

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method when subsequent measurement is made, unless the investment meets the requirements as held-for-sale (see Note II. 27).

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognized at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets, the investment is initially recognized at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.
- After the acquisition of the investment, the Group recognizes its share of the investee's net profit or loss, and the difference is charged to profit or loss are not quoted in an active market recognized by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of investment accordingly. The debit balance of the equity investment difference is amortized using the straight-line method over the period which is determined in accordance with previous accounting standards. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 12. Long-term equity investments *(Continued)*

#### (2) *Subsequent measurement and recognition of profit and loss (Continued)*

##### (b) Investment in jointly controlled enterprises and associates *(Continued)*

The Group recognizes its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealized profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealized losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

- The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprises is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprises, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
- For other changes of shareholders' equity other than net profits or losses of jointly controlled enterprises or associates, the Group adjusts the carrying amount of the long-term equity investment and recognizes it in shareholder's equity.

##### (c) Other long-term equity investments

Other long-term equity investments refer to investments where the Group does not have control, joint control or significant influence over the investees, and the investments are not quoted in an active market and their fair value cannot be reliably measured.

Other long-term equity investments are accounted for subsequently using the cost method. Cash dividends or profit distributions declared by subsidiaries and attributed to the Group shall be recognized as investment income (regardless of whether it is the net profit realized by investee before or after investment), except those that have been declared but unpaid at the time of acquisition and therefore included in the price paid or consideration.

#### (3) *Basis for determining the existence of joint control or significant influence over an investee*

Joint control is the contractual agreed sharing of control over certain arrangement and the decision of related activities of such arrangement should be made after the unanimous consent by the parties sharing of control (e.g. activities have significant impact on the return of such arrangement).

The following evidences shall be considered when determining whether the Group can exercise joint control over an investee:

- no single investor is in a position to control the operating activities unilaterally;
- operating decisions relating to the investee's economic activity require the unanimous consent by the parties sharing of control;

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 12. Long-term equity investments *(Continued)*

#### (3) *Basis for determining the existence of joint control or significant influence over an investee (Continued)*

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies. The following one or more evidences shall be considered when determining whether the Group can exercise significant influence over an investee:

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes;
- material transactions between the investor and the investee;
- interchange of managerial personnel;
- provision of essential technical information.

#### (4) *Method of impairment testing and provision for impairment*

For the method of impairment testing and provision for impairment for subsidiaries, jointly controlled enterprises and associates, refer to Note II. 19.

For other long-term equity investments, the carrying amount is required to be tested for Impairment at the balance sheet date. If there is objective evidence that the investments may be impaired, the impairment shall be assessed on an individual basis. The impairment loss is measured as the amount by which the carrying amount of the investment exceeds the present value of estimated future cash flows discounted at the current market rate on return for a similar financial asset. Such impairment loss is not reversed.

Other long-term equity investments are stated at cost less impairment losses in the balance sheet.

### 13. Fixed assets

#### (1) *Recognition criteria for fixed assets*

Fixed assets represent the tangible assets held by the Group for use in the production of goods, rendering of services or for operation and administrative purposes with useful lives over one accounting year.

The initial cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The initial cost of self-constructed assets is measured in accordance with the policy set out in Note II. 14.

Where parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognized as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 13. Fixed assets *(Continued)*

#### (2) Depreciation method for fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives on the basis of cost less estimated net residual value and accumulated impairment loss, except for those which meet the requirement as held-for-sale (refer to Note II. 27).

The depreciation period, residual value rate and annual depreciation rate of each type of fixed assets are as follows:

Type	Useful life (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	40 years	5%	2.38%
Machinery equipment	5 – 20 years	5%	4.75% – 19%
Transportation equipment	5 – 14 years	5%	6.78% – 19%
Electronic equipment	5 – 14 years	5%	6.78% – 19%

Useful lives, estimated residual values and depreciation methods are reviewed at least each year- end.

#### (3) For the method of impairment testing and provision for impairment, refer to Note II. 19.

#### (4) Recognition and measurement of fixed assets acquired under finance leases.

For the recognition and measurement of fixed assets acquired under finance leases, refer to the accounting policy set out in Note II. 26 (2).

#### (5) Disposal of fixed assets

The carrying amount of a fixed asset shall be derecognized:

- on disposal; or
- when no future economic benefits are expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognized in profit or loss on the date of retirement or disposal.

### 14. Construction in progress

The cost of self-constructed fixed assets includes the cost of materials, direct labour, borrowing costs that meet the criteria for capitalization (see Note II.15), and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed fixed asset is included in construction in progress before it is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Construction in progress is stated in the balance sheet at cost less provision for impairment (see Note II.19).

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 15. Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction of a qualifying asset are capitalized as part of the cost of the asset.

Except for the above, other borrowing costs are recognized as financial expenses in the income statement when incurred.

During the capitalization period, the amount of interest (including amortization of any discount or premium on borrowing) to be capitalized in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalized is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.
- Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognized amount of the borrowings.

During the capitalization period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalized as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognized as a financial expense in profit and loss in the period they are incurred.

The capitalization period is the period from the date of commencement of capitalization of borrowing costs to the date of cessation of capitalization, excluding any period over which capitalization is suspended. Capitalization of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition that are necessary to prepare the asset for its intended use are in progress, and ceases when the assets become ready for their intended use. Capitalization of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts for over three months.

### 16. Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortization and impairment losses (see Note II.19). Intangible asset's cost less estimated net residual value and accumulated impairment losses is amortized on the straight-line method over its estimated useful life, except that the intangible asset match the conditions of held for sale (refer to Note II.27).

The respective amortization periods for such intangible assets are as follows:

Item	Amortization period
Land use rights	50 years
Various software	3 – 10 years
Others	5 – 10 years

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 16. Intangible assets *(Continued)*

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Expenditures on research phase are recognized in profit or loss when incurred. Expenditures on development phase are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalized development costs are stated at cost less impairment losses in the balance sheet (see Note II.19). Other development expenditures are recognized as expenses in the period in which they are incurred.

### 17. Goodwill

The initial cost of Goodwill caused by business combination not under common control is the excess of combination cost and the fair value of obtained identifiable net assets obtained from the acquiree.

Goodwill is not amortized. Goodwill is stated at cost less accumulated impairment losses in the balance sheet (see Note II.19). Goodwill is transferred when its related assets or assets group is disposed, and recognized in profit or loss for the period.

### 18. Long-term deferred expenses

Long-term deferred expenses are amortized in equal installments over the period that it enjoys benefits. Amortization periods for expenditures are:

Item	Amortization period
Decoration	5 years

### 19. Impairment of assets other than inventories, financial assets and other long-term equity investments

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- Fixed assets
- Construction in progress
- Assets acquired under finance lease
- Intangible assets
- Long-term equity investments in subsidiaries, jointly controlled enterprises and associates
- Goodwill
- Long-term deferred expenses
- Other non-current assets etc.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 19. Impairment of assets other than inventories, financial assets and other long-term equity investments *(Continued)*

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, whether impairment evidence exists, the Group assesses the recoverable amount of goodwill at the end of each year. The Group amortizes the book value of goodwill based on benefit from the synergies of the business combination on its related asset or combination of assets, and on this basis conducts impairment test for goodwill annually.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about using or disposing of the Group's assets.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate.

If the result of the recoverable amount estimation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognized, it is not reversed in a subsequent period.

### 20. Fair value measurement

Unless otherwise stated, the Group measures the fair value according to the following principles:

Fair value is the price which the market participants can receive from sale of an asset or shall pay for the transfer a liability in an orderly transaction occurring on the measurement date.

When estimating fair value, the Group considers the characteristics (including status and location of assets, restrictions on the sale or use of assets, etc.) considered by market participants when they determine the price of relevant assets or liabilities on the measurement date, and adopts valuation techniques which are applicable in the current situation and supported by sufficient available data and other information. The valuation techniques mainly include market approach, income approach and cost approach.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 21. Provisions

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

### 22. Revenue

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met.

#### (1) *Sale of goods*

Revenue from sale of goods is recognized when all of the general conditions stated above and the following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyers;
- The Group retains neither continuing managerial involvements to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

#### (2) *Rendering of services*

Revenue from rendering of services is measured at the fair value of the considerations received or receivable under the contract or agreement.

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognized in the income statement by reference to the stage of completion of the transaction based on the progress of work performed or the ratio of cost happened to the proportion of total estimated cost.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss and no service revenue is recognized.

#### (3) *Interest income*

Interest income is recognized on a time proportion basis with reference to the principle and the applicable effective interest rate.

#### (4) *Royalty income of intangible assets*

Royalty income of intangible assets is calculated based on the agreed charging time and method in the relevant contract or agreement.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 23. Employee benefits

#### (1) *Short-term benefits*

The Group recognizes the salary and bonus of an employee, social insurance such as medical insurance, injury insurance and maternity insurance as well as housing fund paid for the employee on applicable basis and at applicable rates actually incurred during the accounting period in which the employee provide service as liabilities and recognizes them in profit or loss or costs of related assets in the same period. If the Group is expected to fail to pay such liabilities in full within twelve months after the end of annual reporting period when an employee provides service, and it will have material financial impact, such liabilities will be measured at the discounted amount.

#### (2) *Post employment benefits - defined contribution scheme*

The defined contribution scheme which the Group participates in accordance with the relevant PRC regulations is the basic pension insurance in the social security system established and managed by government agencies, which the Group's employees participate in. The amount of basic pension insurance contribution is calculated on the basis and at the percentage required by the state. The Group recognizes the amount to be contributed during the accounting period in which employees provide service as liabilities and recognizes them in profit or loss or costs of related assets in the same period.

#### (3) *Termination benefits*

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognized in profit or loss when the following two conditions, which is early, has been satisfied:

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally;
- The Group recognizes the relevant cost and expenses which involved the payment of termination benefit restructuring.

#### (4) *Early retirement benefits*

The early retirement is recognized only when the Group has clear commitment to provide benefits to the staff who initially retire early and the commitment cannot be withdrawn unilaterally. If the related payment is over one year and the amount is significant, the amounts should be measured at discounted value.

### 24. Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognized when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant obtained by the Group for acquisition or construction or in the form of long-term asset is deemed to be related to an asset. A government grant obtained by the Group other than asset-related government grants is deemed to be related to income. A government grant related to an asset is recognized initially as deferred income and equally amortized to profit or loss in the same period over the useful life of the asset. A government grant related to income that compensates the Group for expenses or losses to be incurred in the subsequent periods is recognized initially as deferred income and recognized in profit or loss in the same period in which the expenses are recognized. A government grant that compensates the Group for expenses or losses incurred is recognized in profit or loss immediately.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 25. Income tax

Current and deferred tax is recognised in profit or loss except to the extent that they relate to business combinations or items recognised directly in equity (including other comprehensive income).

Current tax is the expected income tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to income tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities and their tax bases, which include the deductible losses and tax credits carried forward to subsequent years. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets and liabilities are measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has the legal rights to settle the income tax assets and income tax liabilities for the current period by net amount;
- they relate to income taxes levied by the same tax authority on either the taxable entity has a legally enforceable right or set off current income tax assets against current income tax liabilities, and different taxable entities which either intend to settle the current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 26. Operating and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

#### (1) *Operating lease charges*

Rental payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term.

#### (2) *Assets acquired under finance leases*

When the Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair values and the present value of the minimum lease payments, each determined at the inception of the lease. The minimum lease payments are recorded as long-term payables. The difference between the value of the leased assets and the minimum lease payments is recognized as unrecognized finance charges. Initial direct costs that are attributable to a finance lease incurred by the Group are added to the amounts recognized for the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes II.13 (2) and II.19, respectively.

If there is a reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognized finance charge under finance lease is amortized using an effective Interest method over the lease term. The amortization is accounted for in accordance with policies of borrowing costs (see Note II.15).

At the balance sheet date, long-term payables arising from finance leases, net of the unrecognized finance charges, are presented into long-term liabilities and long-term liabilities due within one year.

### 27. Assets held for sale

The non-current assets, including fixed assets, intangible assets and long-term equity investment (excluding financial assets and deferred tax assets), which meet both of the following conditions, are classified as held for sale.

- Such assets in their current condition may be sold immediately only in accordance with the usual terms of sales of such assets;
- The Group has resolved on the disposal of such assets.
- The Company has signed the Irrevocable transfer agreement with the transferee, and the transfer will be completed within one year.

Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss.

### 28. Profit distributions to shareholders

Dividends or distributions of profits proposed in the profit appropriation plan which will be considered and approved after the balance sheet date, are not recognized as a liability at the balance sheet date but disclosed in the notes separately.



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 29. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises which is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and Company include, but are not limited to:

- (a) the Company's parent;
- (b) the Company's subsidiaries;
- (c) enterprises that are controlled by the Company's parent;
- (d) investors that have joint control or exercise significant influence over the Group;
- (e) enterprises or individuals under control or joint control with the Group;
- (f) jointly controlled enterprises of the Group, including subsidiaries of jointly controlled enterprises;
- (g) associates of the Group, including subsidiaries of associates;
- (h) principal individual investors and close family members of the Group;
- (i) key management personnel of the Group and close family members of such individuals;
- (j) key management personnel of the Company's parent;
- (k) close family members of key management personnel of the Company's parent; and
- (l) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

Besides the related parties stated above, determined in accordance with the requirements of CAS, the following enterprises and individuals are considered as (but not restricted to) relate parties of the Group or Company based on the requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

- (m) enterprises or persons that act in concert that hold 5% or more of the Company's shares;
- (n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares, supervisors for listed companies and their close family members;
- (o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- (p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and
- (q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

### 30. Segment reporting

The Group determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments. An operating segment is a component of the Group that meets the following criteria:

- that may earn revenue and incur expenses in daily business activities;
- whose operating results are regularly reviewed by the Group's management to allocate its resources and assess its performance;
- for which discrete financial information on financial positions, financial performance and cash flow is available to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 30. Segment reporting *(Continued)*

Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

- the nature of each product and service;
- the nature of production process;
- the type or class of customers for their products and services;
- the methods used to distribute their products or provide their services;
- the influence brought by law, administrative regulations on production of products and provision of services.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those used for the preparation of financial statements of the Group.

### 31. Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions and judgments on uncertainties related to estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Aparting from the information of risk factors and fair value assumption of the impairment of goodwill, termination benefits and financial instruments contained in Notes V. 12, 22 and Note IX. 3, other key sources of estimation uncertainty are as follows:

#### (a) *Impairment of receivables*

As described in Note II.10, receivables that are measured at amortization cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that the receivables has recovered to its value and is related to the events occurred after the recognition of the loss, the impairment loss recognized in prior years is reversed.

#### (b) *Provision for diminution of inventory cost*

As stated in Note II. 11, the Group estimates the net realisable value of inventories periodically and recognize the excess of inventory cost over its net realizable value as diminution of inventory cost. When making estimation of the realizable value of inventories, the Group considers the purpose of holding the inventory based on available information including its market price and previous operation costs of the Group. The actual selling price, production costs and sales expenses and taxes may vary with sales status, production technologies or the actual usage of the inventories and the provision for diminution of inventory cost may change accordingly. The adjustments to the provision for diminution of inventory cost will have effects upon the profit and loss for the period of change in estimation.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 31. Significant accounting estimates and judgments *(Continued)*

(c) *Impairment of other assets excluding inventories, financial assets and other long-term equity investments*

As described in Note II.19, other assets excluding inventories, financial assets and other long-term equity investments are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If there are indications that the carrying amount of the long-term asset cannot be recovered, the asset is impaired and impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its fair value net of selling price and its present value of expected future cash flows. Since the market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of expected future cash flows, significant judgments are exercised over the asset's production volume, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production volume, selling price and related operating expenses based on reasonable and supportable assumption.

(d) *Depreciation and amortization of fixed assets and intangible assets*

As described in Notes II.13 and 16, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account residual value. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization is revised.

(e) *Product quality warranty*

As described in Note V. 26, according to recent maintenance experience, the Group has made provisions for providing after-sales quality maintenance to its customers on the sales of machine tool products. Since the recent maintenance experience might not reflect the maintenance information for sold products in the future, the management needs to apply more judgments to estimate the provisions. The increase or decrease of the provisions will affect the profit or loss in the future year.

### 32. Changes in significant accounting policies

(1) *Content of and reasons for changes*

The Company has adopted the following new or amended Accounting Standards for Business Enterprises issued by the Ministry of Finance since 1 January 2013:

- Accounting Standards for Business Enterprises No.9 – Employee Benefits (“CAS No.9 (Amendment)”)
- Accounting Standards for Business Enterprises No.30 – Financial Statement Presentation (“CAS No.30 (Amendment)”)
- Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements (“CAS No.33 (Amendment)”)
- Accounting Standards for Business Enterprises No.39 – Fair Value Measurement (“CAS No.39”)
- Accounting Standards for Business Enterprises No.40 – Joint Venture Arrangements (“CAS No.40”)

The principal accounting policies which adopt the above Accounting Standards for Business Enterprises are shown in notes II, 6, 12, 20, 23 and 27. In the preparation of the consolidated financial statements, the accounting policies adopted by subsidiaries are consistent with those adopted by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 32. Changes in significant accounting policies *(Continued)*

#### (1) *Content of and reasons for changes (Continued)*

Major impacts of the Group's adoption of the above Accounting Standards for Business Enterprises are as follows:

##### (a) Employee benefits

In accordance with the accounting requirements under CAS No.9 (Amendment) in respect of the classification, recognition and measurement of short-term benefits, post employment benefits, termination benefits and other long-term employee benefits, the Group sorted out the existing employee benefits and changed the relevant accounting policies. The adoption of CAS No.9 (Amendment) has no impact on the financial position and operating results of the Group.

##### (b) Financial statements presentation

In accordance with the requirements under CAS No.30 (Amendment), the Group revised the presentation of financial statements, including the presentation of other comprehensive income in the income statement that may be reclassified to profit and loss in the subsequent accounting periods when specified conditions are met and that will never be reclassified to profit and loss.

The Group made corresponding adjustments on the presentation of comparative statements.

##### (c) Scope of consolidation

CAS No.33 introduces a single control model to determine whether to consolidate the investees or not. The definition of control depends on whether the Group has power over an investee, obtains variable returns from its involvement with the investee, and is able to use its power over the investee to affect the amount of its returns. Due to the adoption of CAS No.33 (Amendment), the Group has changed its accounting policies as to whether it has power over an investee and whether to consolidate the investee.

The adoption of this CAS will not change the scope of consolidation of the Group as of 1 January 2013.

##### (d) Fair value measurement

CAS No.39 redefines fair value, develops a unified framework for fair value measurement, and standardizes the fair value disclosure requirements. The adoption of CAS No.39 does not have any significant impact on the measurement of fair value of the Group's assets and liabilities. Please see notes IX, 3(5) and (6) for the disclosures made by the Group under CAS No.39.

If the fair value measurement made before 1 January 2013 is inconsistent with that made under CAS No.39, the Group will not make retrospective adjustments. No comparative information is provided regarding the new disclosure requirements.

##### (e) Joint venture arrangements

Before the adoption of CAS No.40, the Group classified the joint venture arrangements into jointly controlled operation, jointly controlled assets and joint ventures. Under CAS No.40, joint venture arrangements are classified as joint operations and joint ventures according to the structure, legal form, terms of contract and other factors of joint venture arrangements.

In accordance with CAS No.40, the Group changed the accounting policies in respect of the joint venture arrangements, and re-evaluated its participation in the joint venture arrangements. The adoption of CAS No.40 has no impact on the financial position and operating results of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (II). SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES *(Continued)*

### 32. Changes in significant accounting policies *(Continued)*

#### (2) *Impact of changes on financial statements*

The abovementioned changes in accounting policies have no impact on the Group's and the Company's financial statements for 2013 and 2012.

## (III). TAXATION

### 1. Major types of tax and tax rates

Types	Tax basis	Tax rate
Value added tax	In accordance with Tax Law, tax on sales of goods or taxable service income for the period after deducting the current allowed deduction of tax, the balance should be the taxable VAT in accordance with the policies	17%
Business tax	In accordance with taxable operating income	3% – 5%
City construction tax	In accordance with actual business tax paid and VAT payable	1% – 7%
Education fee surcharges	In accordance with actual business tax paid and VAT payable	3%
Local education surcharges	In accordance with actual business tax paid and VAT payable	2%
Enterprise income tax	In accordance with income tax payable	Note

Note: The applicable rate of income tax for 2013 of the Company and the Company's subsidiaries Xi'an Ser Turbo Machinery Manufacturing Co., Ltd (Xi'an Ser) and Changsha Ser Turbine Machinery Co., Ltd. (Changsha Ser) is 15% (2012: 15%) and the applicable rate of income tax of other subsidiaries for 2013 is 25% (2012: 25%).

### 2. Preferential tax policies and approvals

On 13 September 2012, the Company was recognized as high-tech enterprise, valid for three years. In March 2014, the Company has completed the filing procedure of application of enjoying preferential income tax policies for high-tech enterprise to Kunming Tax Authority. Therefore, the applicable rate of income tax of the Company for 2013 is 15%.

As at 27th July 2011, Ministry of Finance, China Custom and State Administration of Taxation jointly issued the Notice Issues on Tax Policies for the Implementation of the Strategy Further Exploration and Development of the Western Region (Cai Shui [2011] No. 58), according to which, from 1st January 2011 to 31st December 2020, the enterprises of encouraged industries established in the western regions are subject to an income tax rate of 15%. In accordance with the Announcement No.12 of 2012 issued by the State Administration of Taxation on 6th April 2012, namely the Announcement Regarding the Implementation of Corporate Income Tax Policies for the Development of the Western China, and the Letter of Confirmation Recognising the Relevant Businesses of Shenji Group Kunming Machine Tool Company Limited as State Encouraged Industry (Yun Fagaiban Xibu [2012] No.312) issued by Development and Reform Commission of Yunnan Province on 21st May 2012, as our research and development, production and sales of digital machine tool and high-performance components meet the relevant criteria as stipulated in Order No.9 of NDRC (namely Guiding Catalogue for Industrial Structure Adjustments (Version 2011)) and the requirements regarding the encouraged industries as set out in Cai Shui [2011] No.58 Notice, the Company is entitled to a preferential income tax rate. The applicable corporate income tax rate of the Company for 2012 was 15%.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (III). TAXATION *(Continued)*

### 2. Preferential tax policies and approvals *(Continued)*

The subsidiaries that are entitled to preferential tax treatments are as follows:

Name of enterprises	Preferential tax rate	Reason
Xi'an Ser	15%	Hi-tech enterprise
Changsha Ser	15%	Hi-tech enterprise

There is no change in the applicable tax rates and preferential tax treatments for the Company's subsidiaries in current year as compared with previous year.

## (IV). BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Background of major subsidiaries

#### (1) *Subsidiaries acquired through establishment or investment*

Full name	Type of subsidiaries	Place of registration	Business nature and scope of business	Organization code	Registered capital	Actual capital contribution at the end of the year	Proportion of shareholding (%)	Proportion of voting rights (%)	Consolidated statements	Minority interests at the end of the year (RMB)	Reversal of minority loss interest from minority interest (RMB)
Kunming Kunji General Machine Co., Ltd. ("General Machine")	Company with limited liabilities	China	Development, design, production and sales of machine tool series products and accessories	665546112	RMB3,000,000	RMB3,000,000	100%	100%	Yes	-	-
Changsha Ser	Company with limited liabilities	China	Development, design, production and sales of compressor series products and accessories.	75801180-3	RMB10,000,000	RMB10,000,000	100%	100%	Yes	-	-

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IV). BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 1. Background of major subsidiaries (Continued)

#### (2) Subsidiaries acquired from business combination not under common control

Full name	Type of subsidiaries	Type of enterprise	Place of registration	Business nature and scope of business	Organization code	Registered capital	Actual capital contribution at the end of the year	Proportion of shareholding (%)	Proportion of voting rights (%)	Consolidated statements	Minority interests at the end of the year (RMB)	Reversal of minority loss interest from minority interest
												(RMB)
Xi'an Ser (Note)	Non-controlling subsidiary	Company with limited liabilities	China	Development, design, production and sales of compressor series products and accessories.	22063182-4	RMB 50,000,000	RMB 50,000,000	45%	60%	Yes	47,178,986.49	-

Note: The percentage of voting rights of the Group in Xi'an Ser is determined by the percentage of voting rights of the Group in the board of directors of Xi'an Ser. Xi'an Ser was consolidated due to the fact that the Group has gained control over its financial and operational decision making.

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash at bank and on hand

Item	2013			2012			Unit: RMB
	Original currency	Exchange rate	RMB/RMB equivalent	Original currency	Exchange rate	RMB/RMB equivalent	
Cash on hand	-	-	675,618.41	-	-	314,067.72	
RMB	-	-	647,873.03	-	-	284,355.04	
HKD	3,132.64	0.7862	2,462.98	5,132.76	0.8108	4,161.80	
USD	2,186.15	6.0969	13,328.74	2,186.15	6.2855	13,741.05	
EUR	1,419.86	8.4189	11,953.66	1,419.86	8.3176	11,809.83	
Cash at bank	-	-	138,716,035.84	-	-	89,363,725.11	
RMB	-	-	122,182,847.32	-	-	74,477,458.47	
HKD	9,007,462.32	0.7862	7,081,937.10	8,908,052.06	0.8108	7,222,810.21	
USD	1,548,939.18	6.0969	9,443,727.28	1,208,691.32	6.2855	7,597,229.29	
EUR	893.70	8.4189	7,524.14	7,962.29	8.3176	66,227.14	
Securities deposits	-	-	42,414,015.75	-	-	9,209,247.90	
RMB	-	-	42,414,015.75	-	-	9,209,247.90	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>181,805,670.00</b>	<b>-</b>	<b>-</b>	<b>98,887,040.73</b>	

As at 31st December 2013, security deposits of RMB42,414,015.75 (at 31st December 2012: RMB9,209,247.90) were pledged for the Group's bank guarantees and bank acceptance notes.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2. Bills receivable

(1) Classification of bills receivable

Type	2013	Unit: RMB	
		2013	2012
Bank acceptance notes	182,630,419.80	74,194,825.88	
Commercial acceptance notes	10,987,100.67		–
Total	<u>193,617,520.47</u>	<u>74,194,825.88</u>	

The above bills receivable are due within one year.

None of the above bills receivable was due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(2) At as the end of the year, top five largest amount of bills receivable pledged by the Group

Drawer	Date of issue	Date of Expiry	Amount	Remark
Shanghai Apollo Machinery Co., Ltd.	29/07/2013	17/01/2014	4,914,000.00	Bank acceptance notes
Guizhou Chitianhua Co., Ltd.	14/08/2013	14/02/2014	4,800,000.00	Bank acceptance notes
Dalian Wanyang Heavy Industries Co., Ltd.	26/11/2013	26/05/2014	4,520,000.00	Bank acceptance notes
Shandong Weida Heavy Industries Co., Ltd.	30/03/2013	29/03/2014	4,500,000.00	Bank acceptance notes
Guizhou Chitianhua Co., Ltd.	25/11/2013	17/05/2014	<u>3,143,000.00</u>	Bank acceptance notes
Total			<u>21,877,000.00</u>	

On 31 December 2013, the Group has pledged bank acceptance notes amounted RMB64,684,500.00 for RMB79,279,000.00 bank loans (see Note V. 18(1)). These bank acceptance notes will expire at the latest by 26 May 2014 (2012:nil)

### 3. Accounts receivable

(1) Analysis of accounts receivable by the type of customers:

Type of customers	2013	Unit: RMB	
		2013	2012
Third party	620,819,836.77	524,468,635.11	
Related party	4,538,294.31	4,181,928.75	
Subtotal	625,358,131.08	528,650,563.86	
Less: provision for bad and doubtful debts	<u>203,708,438.99</u>	<u>231,765,313.91</u>	
Total	<u>421,649,692.09</u>	<u>296,885,249.95</u>	



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

#### (2) Ageing analysis of accounts receivable:

Ageing	Unit: RMB	
	2013	2012
Within one year (including one year)	316,940,515.46	174,337,635.14
1-2 years (including two years)	83,892,146.48	115,276,294.74
2-3 years (including three years)	68,811,561.56	95,221,246.10
Over three years	155,713,907.58	143,815,387.88
Subtotal	625,358,131.08	528,650,563.86
Less: provision for bad and doubtful debts	203,708,438.99	231,765,313.91
Total	<u>421,649,692.09</u>	<u>296,885,249.95</u>

The ageing of accounts receivable is calculated starting from the date of recognition.

#### (3) Analysis of accounts receivable by category

Type	Note	2013				2012			
		Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	(4)	56,155,757.01	8.98	12,381,227.10	22.05	41,753,757.01	7.90	12,425,627.10	29.76
Individually not significant but assessed individually for impairment	(5)	7,467,483.01	1.19	608,724.91	8.15	-	-	-	-
Collectively assessed for impairment *									
Group 1	(6)	557,196,596.75	89.10	190,718,486.98	34.23	482,714,878.10	91.31	219,339,686.81	45.44
Group 2	(11)	4,538,294.31	0.73	-	-	4,181,928.75	0.79	-	-
Sub-total		<u>561,734,891.06</u>	<u>89.83</u>	<u>190,718,486.98</u>	<u>33.95</u>	<u>486,896,806.85</u>	<u>92.10</u>	<u>219,339,686.81</u>	<u>45.05</u>
Total		<u>625,358,131.08</u>	<u>100.00</u>	<u>203,708,438.99</u>	<u>-</u>	<u>528,650,563.86</u>	<u>100.00</u>	<u>231,765,313.91</u>	<u>-</u>

Note\*: This category included accounts receivable having been individually assessed but not impaired

The Group did not receive any collateral for the above accounts receivable with provision for bad and doubtful debts.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

#### (3) Analysis of accounts receivable by category (Continued)

Except for those denominated by functional currency, accounts receivable included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
USD	<u>403,195.00</u>	<u>6.0969</u>	<u>2,458,239.58</u>	<u>301,294.10</u>	<u>6.2855</u>	<u>1,893,784.06</u>

#### (4) Individually significant accounts receivable with individual bad debt provision as at the end of the year:

Type	Carrying amount	Provision for bad and doubtful debts	Proportion	Unit: RMB Reasons for making provision
Accounts receivable	56,155,757.01	12,381,227.10	22.05	Impairment occurred under individual assessment method

#### (5) Individually not significant accounts receivable but with individual bad debt provision as at the end of the year:

Type	Carrying amount	Provision for bad and doubtful debts	Proportion	Unit: RMB Reasons for making provision
Accounts receivable	7,467,483.01	608,724.91	8.15	Impairment occurred under individual assessment method

#### (6) Provisions for accounts receivable in groups using ageing analysis method:

Ageing	2013			2012		
	Carrying amount	Proportion	Provision for bad and doubtful debts	Carrying amount	Proportion	Provision for bad and doubtful debts
	Amount	(%)		Amount	(%)	
Within one year	311,847,272.15	55.97	15,592,363.60	170,155,706.39	35.25	8,422,640.03
1-2 years	64,921,963.47	11.65	19,476,589.04	92,048,537.73	19.07	27,475,061.33
2-3 years	45,018,453.55	8.08	27,011,072.14	76,695,246.10	15.89	47,425,147.66
Over 3 years	<u>135,408,907.58</u>	<u>24.30</u>	<u>128,638,462.20</u>	<u>143,815,387.88</u>	<u>29.79</u>	<u>136,016,837.79</u>
Total	<u>557,196,596.75</u>	<u>100.00</u>	<u>190,718,486.98</u>	<u>482,714,878.10</u>	<u>100.00</u>	<u>219,339,686.81</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

#### (7) Reversal of provision for bad and doubtful debts for the year.

Set out below are the accounts receivable for which 95% or more of provision for bad and doubtful debts was made in prior years but the full amount or over 95% of which was recovered during the year.

Accounts receivable	Cause for recovery	Reason for making provision for bad and doubtful debts	Accumulated provision for bad and doubtful debts before recovery	Amount of provision for bad and doubtful debts written back
Trade receivables (35 customers)	Proactive negotiation facilitating collection of the amount	Provision for bad and doubtful debts in groups with an ageing of over 3 years	19,282,857.18	19,186,568.03
Trade receivables (7 customers)	Paid in kind in lieu of cash	Provision for bad and doubtful debts in groups with an ageing of over 3 years	4,183,743.10	4,183,743.10
Total			<u>23,466,600.28</u>	<u>23,370,311.13</u>

#### (8) Accounts receivable written off during the year.

Accounts receivable	Amount written off	Cause for writing-off	Whether incurred in relation to connected transactions
Trade receivables (1 customer)	1,205,500.00	Need not to pay the balance according to the final judgment	No
Trade receivables (20 customers)	4,095,554.97	Agreement was reached to waive part of the accounts receivable	No
Total	<u>5,301,054.97</u>		

#### (9) Amounts of top five accounts receivable

Debtor	Relationship with the Company	Amount	Ageing	Unit: RMB Percentage of total accounts receivable (%)
1st	Third party	39,015,259.40	Within one year	6.24
2nd	Third party	23,227,757.01	Over one year	3.71
3rd	Third party	18,270,283.50	Within one year	2.92
4th	Third party	16,548,000.00	Over one year	2.65
5th	Third party	16,380,000.00	Over one year	2.62
Total		<u>113,441,299.91</u>	–	<u>18.14</u>

As names of the third party customers are confidential commercial information of the Group, we did not disclose specific names of such customers.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

(10) None of the above accounts receivables was due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(11) Accounts receivables due from related parties

Debtor	Note	Relationship with the Company	Amount	Unit: RMB Percentage of total accounts receivable (%)
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	VI. 6	Jointly controlled enterprise	4,538,294.31	0.73

As at 31st December 2013, the Group conducted individual assessment on accounts receivables due from related parties and considered that there was no need to make provisions for bad and doubtful debts.

(12) Derecognition of accounts receivables upon transfer of such receivables

Counter party	Transaction	Balance of transferred accounts receivable	Accumulated provision for bad and doubtful debts before transfer	Net book value of transferred accounts receivable	Transfer price	Unit: RMB Gains on derecognition of accounts receivable
Transferee 1	Sale of accounts receivable due from 23 customers	11,357,076.92	10,737,223.07	619,853.85	7,700,000.00	7,080,146.15
Transferee 2	Transfer of accounts receivable due from 1 customer	2,145,000.00	2,037,750.00	107,250.00	2,145,000.00	2,037,750.00
Transferee 3	Transfer of accounts receivable due from 1 customer	2,470,000.00	2,346,500.00	123,500.00	2,470,000.00	2,346,500.00
Transferee 4	Transfer of accounts receivable due from 2 customer	2,006,500.00	1,333,400.00	673,100.00	2,006,500.00	1,333,400.00
Transferee 5	Transfer of accounts receivable due from 1 customer	1,568,000.00	681,000.00	887,000.00	1,300,000.00	413,000.00
Transferee 6	Transfer of accounts receivable due from 1 customer	1,055,000.00	1,002,250.00	52,750.00	1,055,000.00	1,002,250.00
Transferee 7	Transfer of accounts receivable due from 1 customer	761,000.00	722,950.00	38,050.00	380,500.00	342,450.00
Total		<u>21,362,576.92</u>	<u>18,861,073.07</u>	<u>2,501,503.85</u>	<u>17,057,000.00</u>	<u>14,555,496.15</u>

In order to expedite the recovery of funds to ease the cash flow pressure on the Company, the Company entered into accounts receivable transfer agreements with each of seven third parties in December 2013. Pursuant to these agreements, the Company transferred a few or single accounts receivable to the corresponding transferees. The agreed transfer price was equal to the original book value or 50%-85% of the original book value of these accounts receivable. Please see the above table for the original book value, net book value and transfer price of the accounts receivable in the transfer transactions. None of the seven transferees is a related party of the Company or the Group, or holds more than 5% (including 5%) of the Company's shares carrying voting rights. As the names of the transferees involve trade secrets of the Group, the Group did not disclose their specific names.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

#### (13) Credit policy

The account receivables of the Group were mainly in the form of deposit for warranty, which generally would due after one year of installation of the products according to the sales contracts entered into with customers. Except for deposit for warranty, all payments are payable by the end of the negotiated credit term. The Group would grant credit term of one to three months in general to customers according to their payment records and transaction performance.

### 4. Other receivables

#### (1) Analysis of other receivables by the type of customers:

Type of customers	Unit: RMB	
	2013	2012
Third party	13,815,287.13	18,107,078.55
Related party	1,775,181.97	370,448.02
Sub-total	15,590,469.10	18,477,526.57
Less: provision for bad and doubtful debts	<u>2,944,569.21</u>	<u>4,798,674.36</u>
Total	<u>12,645,899.89</u>	<u>13,678,852.21</u>

#### (2) Ageing analysis of other receivables:

Ageing	Unit: RMB	
	2013	2012
Within one year (including one year)	12,478,055.46	13,367,793.27
1-2 years (including two years)	672,653.60	2,107,195.48
2-3 years (including three years)	313,120.66	1,160,952.70
Over three years	2,126,639.38	1,841,585.12
Sub-total	<u>15,590,469.10</u>	<u>18,477,526.57</u>
Less: provision for bad and doubtful debts	2,944,569.21	4,798,674.36
Total	<u>12,645,899.89</u>	<u>13,678,852.21</u>

The ageing of other receivables is calculated starting from the date of recognition.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Other receivables (Continued)

(3) Analysis of other receivables by category:

Unit: RMB

Type	Note	2013				2012			
		Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	(4)	-	-	-	-	-	-	-	-
Collectively assessed for impairment*									
Group 1	(5)	13,815,287.13	88.61	2,944,569.21	21.31	18,107,078.55	98.00	4,798,674.36	26.50
Group 2	(10)	1,775,181.97	11.39	-	-	370,448.02	2.00	-	-
Sub-total		15,590,469.10	100.00	2,944,569.21	18.89	18,477,526.57	100.00	4,798,674.36	25.97
Total		15,590,469.10	100.00	2,944,569.21	-	18,477,526.57	100.00	4,798,674.36	-

Note\*: This category included other receivables having been individually assessed but not impaired.

The Group did not received any collateral for the above other receivables with provision for bad and doubtful debts.

Except for those denominated by functional currency, other receivables included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
HKD	2,025.87	0.7862	1,592.74	-	-	-

(4) No other receivables was individually significant and assessed individually for bad and doubtful debts at the year end.

(5) Other receivables in groups with provision for bad and doubtful debts using ageing analysis method:

Unit: RMB

Ageing	2013			2012		
	Carrying amount		Provision for bad and doubtful debts	Carrying amount		Provision for bad and doubtful debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within one year	11,073,321.51	80.15	403,881.08	12,997,345.25	71.78	687,852.53
1-2 years	302,205.58	2.19	100,928.09	2,107,195.48	11.64	1,132,434.01
2-3 years	313,120.66	2.27	313,120.66	1,160,952.70	6.41	1,136,802.70
Over 3 years	2,126,639.38	15.39	2,126,639.38	1,841,585.12	10.17	1,841,585.12
Total	13,815,287.13	100.00	2,944,569.21	18,107,078.55	100.00	4,798,674.36

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Other receivables (Continued)

(6) During the year, no significant bad debt provision for other receivables was reversed or collected.

(7) During the year, there was no significant writing-off for other receivables.

(8) Amounts of top five other receivables

Debtor	Relationship with the Company	Amount	Ageing	Unit: RMB Percentage of total other receivables (%)
Kunming TOS	Jointly controlled enterprise	1,775,181.97	Over one year	11.39
Inner Mongolia Machine Equipments Complete Co., Ltd.	Third party	1,200,000.00	Within one year	7.70
Shandong Molong Petroleum Machinery Co., Ltd.	Third party	500,000.00	Within one year	3.21
Lanzhou LS Group Co., Ltd	Third party	480,000.00	Within one year	3.08
Sichuan Nanchong Huaxin Construction Engineering Co., Ltd., Kunming Branch	Third party	425,418.30	Within one year	2.73
Total		<u>4,380,600.27</u>	<u>-</u>	<u>28.11</u>

(9) None of the above other receivables was due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(10) Other receivables due from related parties

Debtor	Note	Relationship with the Company	Amount	Unit: RMB Percentage of total other receivables (%)
Kunming TOS	VI. 6	Jointly controlled enterprise	1,775,181.97	11.39

As at 31st December 2013, the Group conducted individual assessment on other receivables due from related parties and considered that there was no need to make provisions for bad and doubtful debts.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Prepayments

#### (1) Prepayments by category

Item	Unit: RMB	
	2013	2012
Prepayment for materials	44,447,262.87	33,630,628.97
Others	5,420,292.10	4,540,029.95
Total	49,867,554.97	38,170,658.92

#### (2) Ageing analysis of prepayments

Ageing	2013		2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year (including one year)	48,419,364.91	97.10	35,678,651.27	93.47
1-2 years (including 2 years)	1,232,334.73	2.47	328,263.90	0.86
2-3 years (including 3 years)	29,376.00	0.06	937,417.42	2.46
Over 3 years	186,479.33	0.37	1,226,326.33	3.21
Total	<u>49,867,554.97</u>	<u>100.00</u>	<u>38,170,658.92</u>	<u>100.00</u>

The ageing of prepayments is calculated starting from the date of recognition.

Except for those denominated by functional currency, prepayment included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
USD	37,250.65	6.0969	227,113.50	162,852.61	6.2855	1,023,610.07
EUR	559,258.62	8.4189	4,708,342.40	309,133.25	8.3176	2,571,246.68
JPY	8,723,192.09	0.0578	503,947.53	3,523,634.52	0.0730	257,225.32



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Prepayments (Continued)

#### (3) Amounts of top five prepayments

Unit: RMB

Name	Relationship with the Company	Amount	Percentage of total prepayments (%)	Prepayment time	Reasons for non-settlement
Shenyang Shen Coking Coal Sales Office	Third party	20,027,718.00	40.16	Within one year	Prepayment for materials undue
Hangzhou Chinen Steam Turbine Power Co., Ltd	Third party	8,928,457.50	17.90	Within one year	Prepayment for materials undue
Siemens International Trading (Shanghai) Co. Ltd.	Third party	5,242,025.39	10.51	Within one year	Prepayment for materials undue
Changsha Construction Engineering Group Co., Ltd.	Third party	1,501,609.86	3.01	Within one year	Prepayment for materials undue
Beijing Big Power Industrial Control Co., Ltd	Third party	1,325,390.00	2.66	Within one year	Prepayment for materials undue
Total		<u>37,025,200.75</u>	<u>74.24</u>		

(4) None of the above prepayments was made to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

### 6. Inventories

#### (1) Inventories by category

Unit: RMB

Inventories by category	Book value	2013		2012		Carrying amount
		Provision for diminution in value of inventories	Carrying amount	Provision for diminution in value of inventories	Carrying amount	
Raw materials	93,080,072.44	3,065,619.64	90,014,452.80	98,920,608.00	3,065,619.64	95,854,988.36
Consumables	4,573,076.86	82,781.00	4,490,295.86	4,481,378.28	82,781.00	4,398,597.28
Work in progress	610,932,340.09	10,359,596.36	600,572,743.73	543,240,944.02	13,237,418.87	530,003,525.15
Finished goods	149,297,954.65	7,123,898.92	142,174,055.73	377,437,360.82	7,287,560.78	370,149,800.04
Commissioned processing materials	951,286.47	-	951,286.47	11,520,859.57	-	11,520,859.57
Total	<u>858,834,730.51</u>	<u>20,631,895.92</u>	<u>838,202,834.59</u>	<u>1,035,601,150.69</u>	<u>23,673,380.29</u>	<u>1,011,927,770.40</u>

As at 31st December 2013, no inventory was pledged (2012: nil) by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Inventories (Continued)

#### (2) Analysis of the movements of inventories for the year

Unit: RMB

Inventories by category	Opening balance	Increase during the year	Decrease during the year	Closing balance
Raw materials	98,920,608.00	488,320,748.64	494,161,284.20	93,080,072.44
Consumables	4,481,378.28	9,932,060.56	9,840,361.98	4,573,076.86
Work in progress	543,240,944.02	658,265,768.82	590,574,372.75	610,932,340.09
Finished goods	377,437,360.82	531,974,223.37	760,113,629.54	149,297,954.65
Commissioned processing materials	11,520,859.57	18,969,152.30	29,538,725.40	951,286.47
Sub-total	1,035,601,150.69	1,707,461,953.69	1,884,228,373.87	858,834,730.51
Less: Provision for diminution in value of inventories	23,673,380.29	2,684,786.15	5,726,270.52	20,631,895.92
Total	<u>1,011,927,770.40</u>	<u>1,704,777,167.54</u>	<u>1,878,502,103.35</u>	<u>838,202,834.59</u>

#### (3) Provision for diminution in value of inventories

Unit: RMB

Inventories by category	Opening balance	Provision made for the year	Decrease during the year		Closing balance
			Reversal	Write-off	
Raw materials	3,065,619.64	-	-	-	3,065,619.64
Consumables	82,781.00	-	-	-	82,781.00
Work in progress	13,237,418.87	1,190,047.24	-	4,067,869.75	10,359,596.36
Finished goods	7,287,560.78	1,494,738.91	-	1,658,400.77	7,123,898.92
Total	<u>23,673,380.29</u>	<u>2,684,786.15</u>	<u>-</u>	<u>5,726,270.52</u>	<u>20,631,895.92</u>

### 7. Other Current assets

Unit: RMB

Item	2013	2012
Prepaid income taxes	-	1,495,385.23
Prepaid value-added tax	71,326.31	-
Total	<u>71,326.31</u>	<u>1,495,385.23</u>

### 8. Long-term equity investments

#### (1) Long-term equity investments by category:

Unit: RMB

Item	2013	2012
Investments in jointly controlled enterprises	44,449,919.40	43,631,371.02
Investments in associates	13,440,673.03	14,348,530.66
Other long-term equity investments	3,145,000.00	3,145,000.00
Sub-total	61,035,592.43	61,124,901.68
Less: provision for impairment	2,000,000.00	2,000,000.00
Total	<u>59,035,592.43</u>	<u>59,124,901.68</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Long-term equity investments (Continued)

(2) Movements of long-term equity investments during the year:

Unit: RMB

Invested company	Investment cost	Opening balance	Increase/ decrease	Closing balance	Shareholding in invested company (%) (A)	Percentage of voting rights in the invested company (%) (B)	Explanation for discrepancy between (A) and (B)	Impairment provision	Impairment provision made during the year	Cash dividend for the year
Under equity method:										
jointly controlled enterprise										
Kunming TOS	24,739,533.99	43,631,371.02	818,548.38	44,449,919.40	50.00	50.00	-	-	-	678,688.42
Under equity method: associate										
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	14,000,000.00	14,348,530.66	(907,857.63)	13,440,673.03	23.34	23.34	-	-	-	-
Under cost method: other										
long-term equity investments										
Yunnan Cheng Jiang Copper Products Plant (note)	2,000,000.00	2,000,000.00	-	2,000,000.00	40.00	40.00	-	2,000,000.00	-	-
Hangzhou Ser	1,145,000.00	1,145,000.00	-	1,145,000.00	11.45	11.45	-	-	-	-
Sub-total	<u>3,145,000.00</u>	<u>3,145,000.00</u>	<u>-</u>	<u>3,145,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000.00</u>	<u>-</u>	<u>-</u>
Total	<u>41,884,533.99</u>	<u>61,124,901.68</u>	<u>(89,309.25)</u>	<u>61,035,592.43</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000.00</u>	<u>-</u>	<u>678,688.42</u>

Note: Full provision for impairment loss on long-term investment of Yunnan Cheng Jiang Copper Products Plant was made in 1999 because the plant has lost the ability of sustainable operation. In 2009, as approved at the 7th meeting of the six session of the Board of the Company, the Company began to dispose of such investment. As at the date of the financial statement, the process of disposal is still in progress.

(3) Information of major jointly controlled enterprises and associates:

Unit: RMB

Invested company	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total operating income for the year	Net profit/(loss) for the year
1. Jointly controlled enterprise					
Kunming TOS	141,293,046.03	52,393,207.23	88,899,838.80	81,167,874.91	2,994,473.60
2. Associate					
Xi'an Ruite	<u>134,850,700.17</u>	<u>77,264,269.02</u>	<u>57,586,431.15</u>	<u>35,800,679.55</u>	<u>(3,889,707.07)</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Fixed assets

#### (1) Details of fixed assets

Item	Unit: RMB				
	Building and structures	Machinery and equipment	Transportation equipment	Electronic equipment	Total
Cost					
Opening balance	339,939,706.20	532,035,259.75	31,993,968.09	14,244,949.74	918,213,883.78
Addition during the year	60,036.38	3,094,020.87	1,838,653.65	1,227,993.41	6,220,704.31
Transfer from construction in progress	155,896.00	5,308,033.41	–	12,100.00	5,476,029.41
Disposal during the year	(3,453,473.29)	(2,922,045.52)	(1,892,335.00)	(63,273.00)	(8,331,126.81)
Closing balance	336,702,165.29	537,515,268.51	31,940,286.74	15,421,770.15	921,579,490.69
Accumulated depreciation					
Opening balance	88,757,974.27	259,567,103.15	17,376,758.19	10,010,280.80	375,712,116.41
Charge for the year	10,012,731.90	31,080,472.41	2,763,857.80	1,429,102.75	45,286,164.86
Written off during the year	(1,064,660.16)	(2,781,238.88)	(1,191,941.34)	(45,839.05)	(5,083,679.43)
Closing balance	97,706,046.01	287,866,336.68	18,948,674.65	11,393,544.50	415,914,601.84
Impairment provision					
Closing balance	–	2,861,408.11	–	41,365.93	2,902,774.04
Carrying amounts					
At the end of the year	<u>238,996,119.28</u>	<u>246,787,523.72</u>	<u>12,991,612.09</u>	<u>3,986,859.72</u>	<u>502,762,114.81</u>
At the beginning of the year	<u>251,181,731.93</u>	<u>269,606,748.49</u>	<u>14,617,209.90</u>	<u>4,193,303.01</u>	<u>539,598,993.33</u>

During the year, the depreciation of the Group's fixed assets amounted to RMB45,286,164.86.

The Group transferred construction-in-progress to fixed assets at cost during the year amounting to RMB5,476,029.41.

As at 31st December 2013, building and structures of the Group with net book value of RMB11,370,003.28 were pledged to banks for short-term loans (2012: RMB12,310,969.12).

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Fixed assets (Continued)

#### (2) Temporarily idle fixed assets

					Unit: RMB
Item	Cost	Accumulated depreciation	Impairment provision	Carrying amount	Remark
Machinery and equipment	<u>2,577,701.07</u>	<u>2,199,911.79</u>	-	<u>377,789.28</u>	Temporarily sealed and stored

#### (3) Fixed assets acquired under finance leases

				Unit: RMB
Item	Cost	Accumulated depreciation	Carrying amount	
As at 31st December 2013 and 31st December 2012				
Buildings and structures	<u>2,592,597.82</u>	<u>2,488,893.91</u>	<u>103,703.91</u>	

In 2013 and 2012, fixed assets acquired under finance leases were fully depreciated.

#### (4) Fixed assets with pending certificates of ownership

As at 31st December 2013 and at the date of approval of this statement, the Group is applying for property certificates for some buildings and structures. The time of obtaining property certificates is depending upon the consideration and approval procedures of the relevant government authorities. The carrying amount of the above mentioned fixed assets was RMB42,279,528.22 (2012: RMB48,683,361.32).

Directors of the Company are of the opinion that pending the grant of property certificates will not affect the usage and operation of the buildings and structures.

### 10. Construction in progress

#### (1) Information of construction in progress

							Unit: RMB
Item	Book value	2013		2012		Carrying amount	
		Impairment provision	Carrying amount	Book value	Impairment provision		
Heavy casting base SCHIESS GmbH VMG6 machine tool	220,445,960.71	-	220,445,960.71	173,621,841.69	-	173,621,841.69	
Other items	<u>39,084,812.42</u>	-	<u>39,084,812.42</u>	-	-	-	
	<u>42,016,317.52</u>	<u>2,056,931.37</u>	<u>39,959,386.15</u>	<u>10,794,792.43</u>	<u>2,056,931.37</u>	<u>8,737,861.06</u>	
Total	<u>301,547,090.65</u>	<u>2,056,931.37</u>	<u>299,490,159.28</u>	<u>184,416,634.12</u>	<u>2,056,931.37</u>	<u>182,359,702.75</u>	

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Construction in progress (Continued)

(2) Movements of major construction projects in progress during the year

Unit: RMB

Project	Budget	Opening balance	Additions during the year	Transfer to fixed assets during the year	Transfer to intangible assets during the year	Closing balance	Investment percentage to total budget (%)	Project progress	Accumulated amount of interest capitalized	Of which, amount of interest capitalized during the year	Interest capitalization rate of the year	Source of the fund
Heavy casting base	RMB 729,560,000.00	173,621,841.69	46,824,119.02	-	-	220,445,960.71	34.74%	41%	15,855,171.44	9,239,816.13	6.57%	Self-financing and budgetary investment of central government
SCHIESS GmbH VMG6 machine tool (note VI. 5(1) note 2)	4,481,309.00 Euros	-	39,084,812.42	-	-	39,084,812.42	100.00%	0%	-	-	-	Self-financing
Other items	-	8,737,861.06	37,885,588.64	5,476,029.41	1,188,034.14	39,959,386.15	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>182,359,702.75</b>	<b>123,794,520.08</b>	<b>5,476,029.41</b>	<b>1,188,034.14</b>	<b>299,490,159.28</b>	<b>-</b>	<b>-</b>	<b>15,855,171.44</b>	<b>9,239,816.13</b>	<b>6.57%</b>	<b>-</b>

### 11. Intangible assets

Unit: RMB

Item	Land use rights	Various softwares	Others	Total
Cost				
Opening balance	61,890,483.46	19,654,327.42	3,746,281.92	85,291,092.80
Addition during the year	-	1,197,863.20	13,000,000.00	14,197,863.20
Closing balance	61,890,483.46	20,852,190.62	16,746,281.92	99,488,956.00
Accumulated amortization				
Opening balance	4,557,002.49	11,062,087.63	671,738.67	16,290,828.79
Charge for the year	1,340,301.14	1,317,052.16	679,272.04	3,336,625.34
Closing balance	5,897,303.63	12,379,139.79	1,351,010.71	19,627,454.13
Carrying amounts				
At the end of the year	55,993,179.83	8,473,050.83	15,395,271.21	79,861,501.87
At the beginning of the year	57,333,480.97	8,592,239.79	3,074,543.25	69,000,264.01

Amortization for intangible assets of the Group for the year was RMB3,336,625.34.

As at 31st December 2013, land use rights with the carrying amounts of RMB6,476,353.93 was pledged to banks for short-term loans (2012: RMB6,635,282.83).

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12. Goodwill

Invested company	Opening balance	Increase during the year	Decrease during the year	Closing balance	<i>Unit: RMB</i>
					Impairment provision at the end of the year
Xi'an Ser	7,296,277.00	–	–	7,296,277.00	–

When the Group acquired Xi'an Ser in 2001, the cost of merger was higher than the fair value of the identifiable assets and liabilities of Xi'an Ser corresponding to the interests acquired, and the difference was recognized as goodwill related to Xi'an Ser.

The recoverable amount of Xi'an Ser is determined based on the present value of the estimated future cash flows. The Group prepared cash flow forecasts for this asset based on the recent 5 years financial budgets approved by the management and a 10% discount rate before tax. The cash flows after the 5 years forecast would remain stable. The forecast result imposed no impairment loss to the recoverable amounts. However, the key assumptions on which the discount estimated cash flows were based may vary. The management considered that if negative change occurred to the key assumptions, the book value of the Company may exceed its recoverable amount.

The key assumptions for the calculation of the present value of estimated future cash flows for Xi'an Ser were the gross profit margin and the growth rate of operating income of the turbo machine segment. The management determined these key assumptions based on the historical information prior to the estimated period.

### 13. Long-term deferred expenses

Item	Opening balance	Increase during the year	Amortization during the year	<i>Unit: RMB</i>	
				Closing balance	
Decoration	1,926,385.55	316,437.80	935,635.62	1,307,187.73	

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Deferred tax assets

#### (1) Reconciliation of composition of deferred tax assets and liabilities

Unit: RMB

Item	2013		2012	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
<b>Deferred tax assets:</b>				
Provision for bad and doubtful debts	206,653,008.20	30,997,951.23	236,563,988.27	35,484,598.24
Provision for diminution in value of inventories	20,631,895.92	3,094,784.39	23,673,380.29	3,551,007.05
Provision for impairment of fixed assets	2,902,774.04	435,416.10	2,902,774.04	435,416.10
Provision for impairment of construction in progress	2,056,931.37	308,539.71	2,056,931.37	308,539.71
Provision for impairment of long-term equity investments	2,000,000.00	300,000.00	2,000,000.00	300,000.00
Provisions	7,172,981.31	1,075,947.19	9,921,145.94	1,488,171.89
Depreciation of fixed assets	5,193,975.02	779,096.25	5,365,577.75	804,836.66
Accrued expenses	22,604,448.33	3,390,667.25	15,653,693.25	2,348,053.99
Unrealized internal profits	5,035,382.07	755,307.31	5,402,946.04	810,441.91
Discounted value of retirement benefits for internal staff under early retirement	4,629,605.61	694,440.85	9,148,819.78	1,372,322.97
Government grants	103,265,338.88	15,489,800.82	65,131,518.00	9,769,727.70
Payables overdue for two years	1,276,914.33	191,537.15	1,276,914.33	191,537.15
Deductible tax losses	45,166,663.07	6,774,999.47	40,030,812.98	6,004,621.94
Total	<u>428,589,918.15</u>	<u>64,288,487.72</u>	<u>419,128,502.04</u>	<u>62,869,275.31</u>

#### (2) Breakdown of unrecognized deferred tax assets

Unit: RMB

Item	2013	2012
Deductible tax losses of subsidiaries	5,170,367.50	9,918,640.83

#### (3) Expiration of deductible tax losses for unrecognized deferred tax assets

Unit: RMB

Year	2013	2012
2015	2,408,917.21	8,013,861.90
2016	836,746.12	836,746.12
2017	1,924,704.17	1,068,032.81
Total	<u>5,170,367.50</u>	<u>9,918,640.83</u>



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15. Other non-current assets

Item	2013	Unit: RMB	
		2013	2012
Project prepayments	8,300,675.00	6,359,675.00	
Prepayments for land use rights (Note)	33,410,785.60	33,410,785.60	
Prepayments for contracted technology licensing fee (Note VI.5(1), note 2)	39,656,925.20	28,821,962.40	
Prepayments for purchase of relevant equipment (Note VI.5(1), note 3)	–	18,844,219.15	
Others	–	3,900,000.00	
Total	<u>81,368,385.80</u>	<u>91,336,642.15</u>	

Note: As at 31st December 2013 and 31st December 2012, the prepayments for land use right was paid to the People's Government of Songming City of Yunnan Province for a piece of land in Yanglin Industrial Development Zone. In 2012, the Company obtained portion of the land use rights, for which the price was transferred to intangible assets, while the land use right certificate for the remaining part is still being applied.

### 16. Breakdown of provision for impairment of assets

Item	Note	Opening balance	Charge for the year	Decrease during the year			Closing balance
				Reversal	Write-off	Transfer out by sale (note)	
Accounts receivable	V. 3	231,765,313.91	48,194,656.77	52,089,403.65	5,301,054.97	18,861,073.07	203,708,438.99
Other receivables	V. 4	4,798,674.36	–	1,143,381.44	710,723.71	–	2,944,569.21
Inventories	V. 6	23,673,380.29	2,684,786.15	–	5,726,270.52	–	20,631,895.92
Long-term equity investments	V. 8	2,000,000.00	–	–	–	–	2,000,000.00
Fixed assets	V. 9	2,902,774.04	–	–	–	–	2,902,774.04
Construction in progress	V. 10	2,056,931.37	–	–	–	–	2,056,931.37
Total		<u>267,197,073.97</u>	<u>50,879,442.92</u>	<u>53,232,785.09</u>	<u>11,738,049.20</u>	<u>18,861,073.07</u>	<u>234,244,609.53</u>

As stated in note V. 3 (12), the Company has sold parts of accounts receivable rights. The transferred of accounts receivable incurred previous accumulated provision for bad debts of RMB18,861,073.07 subsequently transferred out.

Please refer to notes to the relevant assets for reasons of impairment loss recognized for different assets during the year.

### 17. Restricted assets

As at 31st December 2013, the assets with restrictions placed on their ownership as follows:

Item	Note	Opening balance	Increase during the year	Decrease during the year	Unit: RMB	
					Closing balance	
Assets pledged as collateral						
– Cash at bank and on hand	V. 1	9,209,247.90	36,964,295.80	3,759,527.95	42,414,015.75	
– Bills receivable	V. 2	–	90,636,795.80	25,952,295.80	64,684,500.00	
– Fixed assets	V. 9	12,310,969.12	–	940,965.84	11,370,003.28	
– Intangible assets	V. 11	6,635,282.83	–	158,928.90	6,476,353.93	
Total		<u>28,155,499.85</u>	<u>127,601,091.60</u>	<u>30,811,718.49</u>	<u>124,944,872.96</u>	

During the financial reporting period, restricted ownership security deposits are deposited with the bank as security for the letters of guarantee and bank acceptance notes issued by the bank for the Group.

Restricted ownership bills receivable, fixed assets and intangible assets were pledged for short-term loans. After repayment of the short-term loans, the term of restriction will be released.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18. Short-term loans

(1) Types of short-term loans:

Item	Unit: RMB	
	2013	2012
Pledged loans	79,279,000.00	–
Secured loans	15,000,000.00	15,000,000.00
Guarantee loans	205,000,000.00	90,000,000.00
Total	<u>299,279,000.00</u>	<u>105,000,000.00</u>

(2) As at 31st December 2013, the Group had no short-term loans due but outstanding.

### 19. Bills payable

Type	Unit: RMB	
	2013	2012
Bank acceptance bills	<u>67,742,506.00</u>	<u>28,693,005.00</u>

The above amount of bills payable will be due within one year.

### 20. Accounts payable

(1) Types of accounts payable are as follows:

Item	Unit: RMB	
	2013	2012
Accounts payable to related company	18,238,531.66	34,449,887.87
Accounts payable to suppliers	485,101,074.38	472,312,690.32
Total	<u>503,339,606.04</u>	<u>506,762,578.19</u>

(2) There were no accounts payable to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(3) Ageing analysis of accounts payable:

Ageing	2013		2012		Unit: RMB
	Book value Amount	Proportion (%)	Book value Amount	Proportion (%)	
Within one year (including one year)	377,970,807.66	75.09	452,775,354.00	89.35	
1-2 years (including 2 years)	95,953,035.13	19.06	38,002,306.15	7.50	
2-3 years (including 3 years)	24,141,854.80	4.80	12,272,909.56	2.42	
Over 3 years	5,273,908.45	1.05	3,712,008.48	0.73	
Total	<u>503,339,606.04</u>	<u>100.00</u>	<u>506,762,578.19</u>	<u>100.00</u>	

The ageing of accounts payable is calculated starting from the date of recognition.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20. Accounts payable (Continued)

#### (3) Ageing analysis of accounts payable: (Continued)

Except for those denominated by functional currency, accounts payable included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
USD	15,024.22	6.0969	91,601.17	–	–	–
EUR	550,163.11	8.4189	4,631,768.21	–	–	–
JPY	3,344,063.25	0.0578	193,189.88	–	–	–

The significant accounts payable aged over one year of the Group mainly represented the outstanding purchase amounts of ancillary equipments and raw materials.

#### (4) Debt restructuring in respect of accounts payable

In order to reduce the operation burden of the Company, the Company negotiated with some suppliers from the second half of 2013, requesting the suppliers to give discount on the accounts payable for previous purchases. In the end, the Company entered into debt restructuring agreements with each of 52 suppliers. Pursuant to the provisions of these agreements, the suppliers agreed to accept certain reductions on the accounts payable owed by the Company. The reduced amount generally represented 10% – 35% of the accounts payable before discounting. The suppliers committed to giving up ownership of the reduced amounts and will never claim the rights to the reduced amounts. None of the suppliers which entered into debt restructuring agreements is a related party of the Company or the Group, or holds more than 5% (including 5%) of the Company's shares carrying voting rights.

The total original book value of the accounts payable mentioned in the debt restructuring agreements is RMB107,770,137.20 (see the table below). Pursuant to the above agreements, the total balance of accounts payable owed by the Company after adjustments was RMB86,297,612.78, thus the Company reduced the accounts payable in an amount of RMB21,472,524.42, and recognized the gain in the non-operating income (see note V. 42(3)).

Name of supplier	Balance before debt adjustment	Balance after debt adjustment	The amount of discount
Cangzhou Mingyuan Machinery Manufacturing Ltd.	13,489,152.46	10,184,601.65	3,304,550.81
Kunming Zechen Technology Co., Ltd.	5,844,835.89	4,091,385.12	1,753,450.77
Kunming Chengliang Xin Trade Co., Ltd.	3,658,116.53	2,560,681.57	1,097,434.96
Kunming Yufeng Trade Co., Ltd.	3,368,722.31	2,358,105.62	1,010,616.69
Kunming Changqin Trade Co., Ltd.	5,014,259.69	4,011,407.75	1,002,851.94
Other 47 suppliers	76,395,050.32	63,091,431.07	13,303,619.25
Total	<u>107,770,137.20</u>	<u>86,297,612.78</u>	<u>21,472,524.42</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 21. Advances from customers

(1) Advances from customers by ageing of accounts are as follows:

Unit: RMB

Ageing	2013		2012	
	Book value Amount	Proportion (%)	Book value Amount	Proportion (%)
Within one year (including one year)	128,158,905.34	49.99	199,856,646.59	58.90
1-2 years (including two years)	61,626,407.21	24.04	111,355,965.17	32.82
2-3 years (including three years)	46,619,792.74	18.18	16,609,370.58	4.89
Over three years	19,960,101.08	7.79	11,519,079.93	3.39
Total	<u>256,365,206.37</u>	<u>100.00</u>	<u>339,341,062.27</u>	<u>100.00</u>

All advanced from customers are payment of goods which the Company received from its customers.

The significant advances from customers aged over one year of the Group mainly represented the receipt in advance that are not yet settled. Some customers delayed in delivery from the Group because of the postponing of their- selves construction projects.

Except for those denominated by functional currency, advanced from customer included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
USD	919,456.20	6.0969	5,605,832.50	590,959.30	6.2855	3,714,474.69

(2) There were no advances from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22. Employee benefits payable

Item	<i>Unit: RMB</i>			
	Opening balance	Accrued during the year	Paid during the year	Closing balance
1. Short-term employee benefits	16,351,581.90	230,269,137.98	238,752,763.76	7,867,956.12
Including: 1) Salary, bonus, subsidy and grants (note 1)	8,204,110.11	185,004,560.78	192,912,477.73	296,193.16
2) staff welfare	-	6,783,276.64	6,783,276.64	-
3) social insurance	-	17,727,672.26	17,727,672.26	-
Including: Medical insurance	-	13,170,766.64	13,170,766.64	-
Unemployment insurance	-	2,621,970.56	2,621,970.56	-
Work injury insurance	-	813,454.20	813,454.20	-
Maternity insurance	-	1,121,480.86	1,121,480.86	-
4) Housing fund	1,846,656.72	15,389,250.85	15,361,084.25	1,874,823.32
5) Union expenses and employees education expenses	6,300,815.07	5,364,377.45	5,968,252.88	5,696,939.64
2. Defined contribution plan	-	24,971,837.04	24,971,837.04	-
Including: Basic retirement insurance premiums	-	24,971,837.04	24,971,837.04	-
3. Termination benefits (including early retirement expenses)(note 2)	9,148,819.78	307,133.68	4,536,023.17	4,919,930.29
<b>Total</b>	<b>25,500,401.68</b>	<b>255,548,108.70</b>	<b>268,260,623.97</b>	<b>12,787,886.41</b>

Note 1: The Group paid the accrued salary, subsidy and grants in January 2014. As at 31st December 2013, the Group did not have any accrued salary in arrears.

Note 2: As at 31st December 2013, the above termination benefits mainly include the following early retirement expenses.

Some employees of the Group retired from employment prior to their statutory retirement age. According to the requirements of the early retirement plan of the Group, from the date of ceasing service provision up to their respective statutory retirement dates, such employee salary as proposed salary and social insurance for early retirement employees were recognised at their discounted present value as provisions and were included in current administrative expenses ("early retirement expenses"). The discount rate selected by the Group represented the interest rate of national bonds having the same credit term with early retirement plan of the Group.

### 23. Taxes payable

Item	<i>Unit: RMB</i>	
	2013	2012
Value added tax	21,007,424.40	8,657,696.02
Business tax	29,724.51	29,904.30
Corporate income tax	127,273.69	337,754.29
Other	3,037,784.66	3,297,485.55
<b>Total</b>	<b>24,202,207.26</b>	<b>12,322,840.16</b>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Dividends payable

Item	Unit: RMB	
	2013	2012
Cash dividends declared but outstanding	<u>135,898.49</u>	<u>135,898.49</u>

### 25. Other payables

(1) Other payables are as follows:

Item	Unit: RMB	
	2013	2012
Payable for projects	68,596,110.21	37,848,515.07
Secured deposits for projects	2,320,800.00	3,020,058.50
Leasing expenses	6,327,333.96	5,563,318.96
Auditor's fee	3,238,679.25	2,160,000.00
Commissions and business promotion fees	10,433,743.69	8,863,815.00
Others	<u>30,851,585.33</u>	<u>15,963,501.61</u>
Total	<u>121,768,252.44</u>	<u>73,419,209.14</u>

There were no other payables due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(2) Other payables by ageing of accounts are as follows:

Ageing	2013		2012	
	Book value balance Amount	Proportion (%)	Book value balance Amount	Proportion (%)
Within one year (including one year)	112,065,454.60	92.04	53,811,347.81	73.29
1-2 years (including two years)	6,652,402.45	5.46	14,958,695.50	20.37
2-3 years (including three years)	1,146,462.84	0.94	1,163,850.00	1.59
Over three years	<u>1,903,932.55</u>	<u>1.56</u>	<u>3,485,315.83</u>	<u>4.75</u>
Total	<u>121,768,252.44</u>	<u>100.00</u>	<u>73,419,209.14</u>	<u>100.00</u>

As at 31st December 2013, the significant other payables aged over one year of the Group mainly represented secured deposits for projects and outstanding sales commissions.

(3) As at 31st December 2013, the significant other payables of the Group mainly represented construction projects payment to the contractors.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Provisions

Item	Unit: RMB	
	2013	2012
Product quality warranty	<u>7,172,981.31</u>	<u>9,921,145.94</u>

Generally, the Group provides after-sale quality service guarantee to its customers who buy machine tool products from the Group. If the products have malfunction caused by non-accident or quality problems within one year after sale, the Group will provide free maintenance. The above product quality warranty was made based on the Group's forecasted product quality warranty expenditures needed to be undertaken for products sold during the year and prior years.

### 27. Non-current liabilities due within one year

Information of non-current liabilities due within one year is as follows:

Item	Note	Unit: RMB	
		2013	2012
Obligation under finance lease	V. 28	213,209.00	213,209.00
Sales and lease back	V. 30	<u>205,300.00</u>	<u>205,300.00</u>
Total		<u>418,509.00</u>	<u>418,509.00</u>

### 28. Long-term payables

Item	Unit: RMB	
	2013	2012
Obligation under finance lease	1,705,672.90	1,918,881.90
Less: obligation under finance lease due within one year	<u>213,209.00</u>	<u>213,209.00</u>
Total	<u>1,492,463.90</u>	<u>1,705,672.90</u>

Obligation under finance lease reflected the present value of minimum lease payments caused by the Group's lease of some workshops and factory buildings after sale in 2001. The lease constituted finance lease and the term of lease was 20 years.

As at 31st December 2013, the balance of unrecognised finance expenses of the Group was RMB1,031,679.24 (2012: RMB1,160,639.12).

There were no long-term payables due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 28. Long-term payables (Continued)

The minimum finance lease payment of the Group payable after 31st December 2013 is as follows:

Minimum lease payments	2013	2012
Within one year (including one year)	342,168.88	342,168.88
1-2 years (including two years)	342,168.88	342,168.88
2-3 years (including three years)	342,168.88	342,168.88
Over three years	1,710,845.50	2,053,014.38
Sub-total	2,737,352.14	3,079,521.02
Less: unrecognised finance charges	1,031,679.24	1,160,639.12
Total	<u>1,705,672.90</u>	<u>1,918,881.90</u>

The above amount of finance lease payment due within one year after deducting unrecognised finance charges was disclosed in note V. 27.

### 29. Special payables

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Tax refund for import tariff and import VAT for key parts of machine tools (note)	<u>15,167,565.87</u>	<u>5,779,973.42</u>	<u>-</u>	<u>20,947,539.29</u>

Note: Pursuant to the stipulations of the "Notice from the Ministry of Finance, National Development Reform Commission, China Customs, State Administration of Taxation on Import Duties Policy Related to Several Opinions on the Acceleration of Revitalising the Equipment Manufacturing Industry" (Cai Guan Shui [2007] No. 11), the tax refund will be treated as state investment, and should convert into state capital within the specified time. If an enterprise cannot convert the tax refund into state capital within the specified time, it should return the refund to state treasury on time. The Company would directly issue shares to its state-owned substantial shareholders Shenji Group and Yunnan Industrial Investment within two years after receiving the tax refund and complete the procedure of converting tax refund into state capital. Before that time, the Company will treat it as special payables according to accounting standards.



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 30. Other non-current liabilities

Item	2013	Unit: RMB 2012
Deferred income		
– sales and lease back (note 1)	1,437,102.91	1,642,402.91
– government grants (note 2)	<u>103,265,338.88</u>	<u>65,131,518.00</u>
Total	<u>104,702,441.79</u>	<u>66,773,920.91</u>

Note 1: Deferred income-sales and lease back were caused by the Group's lease of some buildings and structures and land use rights after sale in 2001 and the lease constituted operating lease. Therefore, the difference between the income of selling premises and land use rights and the original book value formed deferred income and would be amortised by straight-line method within 20 years of leasing period. In 2013, the Group treated the deferred income which was forecasted to be transferred to income statement within one year as non-current liabilities due within one year (see Note V. 27).

Note 2: Government grants

Grants	Amount at the beginning of the year	Addition grant amount during the year	Amount recognized as non-operating income	Other movements	Amount at the end of the year	Related to assets/income
Phase one of the CNC heavy and precision machine tool manufacturing project	16,000,000.00	–	–	–	16,000,000.00	Related to assets
Land use rights of Yanglin Base	13,883,334.00	–	280,000.00	–	13,603,334.00	Related to assets
R&D grants for high precision CNC horizontal jig boring machine tools	8,035,000.00	–	–	(200,000.00)	7,835,000.00	Related to income
R&D grants for precision horizontal and vertical products machine center	10,923,384.00	10,410,820.00	–	–	21,334,204.00	Related to income
R&D grants for intelligent manufacturing machine project	–	14,000,000.00	–	–	14,000,000.00	Related to income
Government grants for other R&D projects	<u>16,289,800.00</u>	<u>15,653,000.88</u>	<u>1,450,000.00</u>	–	<u>30,492,800.88</u>	Related to income
Total	<u>65,131,518.00</u>	<u>40,063,820.88</u>	<u>1,730,000.00</u>	<u>(200,000.00)</u>	<u>103,265,338.88</u>	

### 31. Share capital

	Unit: RMB Opening and closing balance
Ordinary domestic A Shares	390,186,228.20
Overseas foreign H Shares listed in Hong Kong	<u>140,894,874.80</u>
Total	<u>531,081,103.00</u>

### 32. Capital reserve

Item	Unit: RMB Opening and closing balance
Share premium	19,206,777.12
Other capital reserves – others	<u>8,096,544.60</u>
Total	<u>27,303,321.72</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33. Surplus reserve

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserve	<u>116,508,002.60</u>	<u>569,016.73</u>	<u>–</u>	<u>117,077,019.33</u>

Unit: RMB

### 34. Retained earnings

Item	Note	Unit: RMB Amount
Retained earnings at the beginning of the year		643,404,128.51
Add: net profit attributable to shareholders of the Company for the year		7,440,164.34
Less: Appropriation for statutory surplus reserve		<u>569,016.73</u>
Retained earnings at the end of the year	(1)	<u>650,275,276.12</u>

(1) Retained earnings at the end of the year

RMB334,035.20 of surplus reserve attributed to the Company was made by subsidiaries during the year (2012: RMB157,620.39).

As at 31st December 2013, the Group's retained earnings attributed to the Company included RMB7,241,937.75 of surplus reserve drawn by subsidiaries of the Company (2012: RMB6,907,902.55).

### 35. Operating income and operating costs

(1) Operating income and operating costs

Item	2013	2012
Operating income from principal activities	1,051,255,934.95	1,082,295,370.62
Including: income from sales of goods	1,032,474,087.81	1,066,989,921.61
income from services	18,781,847.14	15,305,449.01
Other operating income	<u>11,579,320.32</u>	<u>4,015,725.16</u>
Total of operating income	<u>1,062,835,255.27</u>	<u>1,086,311,095.78</u>
Operating costs	<u>837,116,958.98</u>	<u>880,453,359.74</u>

Unit: RMB

(2) Principal activities (by industry)

Industry	2013		2012	
	Operating income	Operating cost	Operating income	Operating cost
Machine tools	915,995,230.62	729,393,037.66	898,760,425.29	724,801,016.49
Turbo machines	<u>146,840,024.65</u>	<u>107,723,921.32</u>	<u>187,550,670.49</u>	<u>155,652,343.25</u>
Total	<u>1,062,835,255.27</u>	<u>837,116,958.98</u>	<u>1,086,311,095.78</u>	<u>880,453,359.74</u>

Unit: RMB

(3) Please refer to note IX. 2(2) for information regarding income from external customers as set out by different areas by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Operating income and operating costs (Continued)

(4) Operating income from top five customers in 2013

Name of customers	Operating income	Unit: RMB
		Proportion to total operating income (%)
1st	33,346,375.53	3.14
2nd	29,709,743.58	2.80
3rd	29,487,179.46	2.77
4th	29,256,222.24	2.75
5th	23,333,333.34	2.20
Total	<u>145,132,854.15</u>	<u>13.66</u>

As names of customers involve the commercial confidential information of the Group, we did not disclose the specific names of the top five customers in 2013.

### 36. Business taxes and surcharges

Item	2013	2012	Unit: RMB
			Taxation basis and rates
Business tax	199,502.00	11,048.24	3% – 5% of operating income
Urban maintenance and construction tax	4,212,900.37	4,155,659.37	1% – 7% of paid VAT and business tax
Education surcharges	1,844,082.16	1,910,381.75	3% of paid VAT and business tax
Local education surcharges	1,029,679.94	1,078,106.38	2% of paid VAT and business tax
Total	<u>7,286,164.47</u>	<u>7,155,195.74</u>	

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37. Selling and distribution expenses

Item	2013	Unit: RMB
		2012
Staff cost	25,872,954.54	34,676,230.13
Sales commission and business promotion expenses	6,418,234.76	4,765,756.67
Depreciation expenses	892,258.93	938,404.43
Others	48,481,130.07	56,247,762.84
Total	<u>81,664,578.30</u>	<u>96,628,154.07</u>

### 38. General and administrative expenses

Item	2013	Unit: RMB
		2012
Staff cost	62,914,599.88	63,435,571.38
Depreciation expenses	8,912,084.83	9,139,581.69
Others	90,844,025.14	87,799,303.87
Total	<u>162,670,709.85</u>	<u>160,374,456.94</u>

### 39. Finance expenses

Item	2013	Unit: RMB
		2012
Interest expenses on loans	15,390,927.26	8,507,777.84
Less: interest expenses capitalized	9,239,816.13	6,615,355.31
Interest income	(469,431.82)	(655,934.64)
Net exchange loss ("()" for gain)	173,674.69	(500,885.54)
Other financial expenses	1,262,711.55	1,062,122.84
Total	<u>7,118,065.55</u>	<u>1,797,725.19</u>

The interest rate per annum, at which the borrowing cost were capitalized for the current year by the Group was 6.57% (2012: 6.86%).

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40. Investment income

<b>Item</b>	<i>Note</i>	<b>2013</b>	<i>Unit: RMB</i> <b>2012</b>
Income from long-term equity investments accounted for using the equity method	V. 8	589,379.17	1,055,320.73
Income from disposal of long-term equity investments		–	1,408,054.17
Others		–	533,000.00
<b>Total</b>		<u>589,379.17</u>	<u>2,996,374.90</u>

(1) Information on income from long-term equity investments accounted for using the equity method is as follows:

<b>Invested companies</b>	<b>2013</b>	<i>Unit: RMB</i> <b>2012</b>
Kunming TOS	1,497,236.80	1,131,147.36
Xi'an Ruite	(907,857.63)	(75,826.63)
<b>Total</b>	<u>589,379.17</u>	<u>1,055,320.73</u>

### 41. Asset impairment losses

<b>Item</b>	<b>2013</b>	<i>Unit: RMB</i> <b>2012</b>
Accounts receivable	(3,894,746.88)	44,203,336.28
Other receivables	(1,143,381.44)	653,431.08
Inventories	2,684,786.15	7,405,546.31
<b>Total</b>	<u>(2,353,342.17)</u>	<u>52,262,313.67</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Non-operating income

Non-operating income by item is as follows:

Item	Note	Unit: RMB		
		2013	2012	Amount included in extraordinary gains or losses for the year 2013
Gain on disposal of non-current assets		1,270,162.87	51,454.39	1,270,162.87
Government grants	(1)	4,222,272.70	15,369,410.00	4,222,272.70
Gain on transfer of accounts receivable	(2)	14,555,496.15	-	14,555,496.15
Gain on debt restructuring of accounts payable	(3)	21,472,524.42	-	21,472,524.42
Others		225,827.84	137,367.91	225,827.84
Total		<u>41,746,283.98</u>	<u>15,558,232.30</u>	<u>41,746,283.98</u>

#### (1) Breakdown of government grants:

Item	2013	2012	Related to assets/income	Explanation
THM series precision horizontal products machining center	-	8,142,000.00	Related to income	-
Large Precision CNC boring and milling machines (TKS6916)	-	2,600,000.00	Related to income	-
R&D projects grants from Yunnan provincial precision machine tool engineering research center	1,200,000.00	-	Related to income	-
Others	<u>3,022,272.70</u>	<u>4,627,410.00</u>	Related to assets/income	-
Total	<u>4,222,272.70</u>	<u>15,369,410.00</u>	-	-

#### (2) Gain on transfer of accounts receivable

As stated in note V. 3(12), the Company transferred certain accounts receivable to seven transferees in December 2013, and the difference of RMB14,555,496.15 between the net book value of the transferred accounts receivable after deducting the provision for bad and doubtful debts and the related considerations were recognized as the gains on transfer of account receivable in the non-operating income.

#### (3) Gain on debt restructuring of accounts payable

As stated in note V. 20(4), the Company entered into debt restructuring agreements with each of 52 suppliers in 2013, pursuant to which, the suppliers agreed to accept certain reductions on the accounts payable owed by the Company to the suppliers. Pursuant to the provisions of these agreements, the suppliers committed to giving up ownership of the reduced amounts and will never claim the rights to the reduced amounts. The difference between the original book value of accounts payable and accounts payable after adjustments was RMB21,472,524.42, and was recognized as gain on the debt restructuring of accounts payable in the non-operating income.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43. Non-operating expenses

Item	2013	2012	Unit: RMB
			Amount included in extraordinary gains or losses for the year 2013
Losses on disposal of fixed assets	146,556.46	516,205.94	146,556.46
Others	2,856,306.21	918,565.55	2,856,306.21
Total	<u>3,002,862.67</u>	<u>1,434,771.49</u>	<u>3,002,862.67</u>

### 44. Income tax expenses

Item	Note	2013	Unit: RMB
			2012
Current tax expenses for the year based on tax law and related regulations		560,655.36	892,777.43
Difference adjustment for making final settlement		198,186.71	2,853,031.09
Changes in deferred tax assets	(1)	<u>(1,419,212.41)</u>	<u>(16,689,987.38)</u>
Total		<u>(660,370.34)</u>	<u>(12,944,178.86)</u>

During the 12 months ended 31st December 2013 and 31st December 2012, the Group did not have assessable profits subject to Hong Kong Profits Tax. Therefore, no provision has been made for Hong Kong Profits Tax.

(1) The analysis of changes in deferred tax is set out below:

Item	2013	Unit: RMB
		2012
Origination and reversal of the temporary differences	(387,908.32)	(17,052,661.67)
Unrecognised deductible losses	–	531,923.19
Reversal of deferred tax assets recognised in prior years	369,932.08	1,327,591.20
Using deductible losses unrecognised in prior years	<u>(1,401,236.17)</u>	<u>(1,496,840.10)</u>
Total	<u>(1,419,212.41)</u>	<u>(16,689,987.38)</u>

(2) The relationship between income tax expenses and accounting profit:

Item	2013	Unit: RMB
		2012
Profit before tax ("(" for loss)	8,664,920.77	(95,240,273.86)
Expected income tax under tax rate applicable to relevant region	2,166,230.19	(23,810,068.47)
Add: Non-deductible expenses	1,188,725.93	261,223.30
Non-taxable income	(147,344.79)	(263,830.18)
Unrecognised deductible losses	–	531,923.19
Reversal of deferred tax assets recognised in prior years	369,932.08	1,327,591.20
Using deductible losses unrecognised in prior years	<u>(1,401,236.17)</u>	<u>(1,496,840.10)</u>
Effects of different tax rates	1,192,763.04	12,005,705.39
Effects of items eligible for additional deduction	<u>(3,853,933.23)</u>	<u>(3,757,729.32)</u>
Effects on preferential income tax	(373,694.10)	(595,184.96)
Difference adjustment for making final settlement	<u>198,186.71</u>	<u>2,853,031.09</u>
Income tax expenses for the year ("(" for income tax income)	<u>(660,370.34)</u>	<u>(12,944,178.86)</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Calculation of basic earnings per share and diluted earnings per share

#### (1) Basic earnings per share

The basic earnings per share was calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of the outstanding ordinary shares of the Company:

	2013	2012
Consolidated net profit attributable to ordinary shareholders of the Company (“”) for loss) (RMB)	7,440,164.34	(73,220,171.53)
Weighted average number of the outstanding ordinary shares of the Company (share)	531,081,103.00	531,081,103.00
Basic earnings per share (“”) for loss) (RMB/share)	0.01	(0.14)

In 2013 and 2012, there were no changes in the number of outstanding ordinary shares of the Company. The weighted average number of ordinary shares outstanding for such years was the same as the number of ordinary shares as at 1st January 2013.

#### (2) Diluted earnings per share

The diluted earnings per share was the same as the basic earnings per share, because the Company did not have any potentially dilutive ordinary shares during the year.

### 46. Income statement supplementary information

Classification of expenses in the income statement by nature:

Item	Unit: RMB	
	2013	2012
Operating income	1,062,835,255.27	1,086,311,095.78
Less: Consumed raw materials	586,392,990.62	564,918,359.74
Staff cost incurred	255,548,108.70	292,521,360.04
Depreciation expenses	45,286,164.86	44,947,598.05
Amortization of intangible assets	3,336,625.34	2,363,706.73
Assets impairment losses	(2,353,342.17)	52,262,313.67
Auditor's fee	3,400,000.00	2,660,000.00
Others	162,559,787.15	221,878,031.41
Total profit (“”) for loss)	<u>8,664,920.77</u>	<u>(95,240,273.86)</u>



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Notes to cash flow statement

(1) Cash received relating to other operating activities during the year

<b>Item</b>	<i>Unit: RMB</i> <b>Amount</b>
Government grants for R&D of products	40,597,648.58
Others	<u>653,616.52</u>
Total	<u><u>41,251,265.10</u></u>

(2) Cash paid relating to other operating activities during the year

<b>Item</b>	<i>Unit: RMB</i> <b>Amount</b>
Product quality warranty expenses	8,292,509.25
Others	<u>32,063,328.79</u>
Total	<u><u>40,355,838.04</u></u>

(3) Cash received relating to other financing activities during the year

<b>Item</b>	<i>Unit: RMB</i> <b>Amount</b>
Cash received from notes payable financing	<u><u>47,230,000.00</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48. Related information of cash flow statement

#### (1) Supplementary information on cash flow statement

Supplementary information	2013	Unit: RMB 2012
<b>1. Reconciliation of net profit ("()" for net loss) to cash flows from operating activities:</b>		
Net profit ("()" for net loss)	9,325,291.11	(82,296,095.00)
Add: Provision for impairment of assets	(2,353,342.17)	52,262,313.67
Depreciation of fixed assets	45,286,164.86	44,947,598.05
Amortization of intangible assets	3,336,625.34	2,363,706.73
Amortization of long-term deferred expenses	935,635.62	534,434.88
Amortization of deferred gain	(1,935,300.00)	(205,300.00)
Loss on disposal of fixed assets ("()" for profit)	(1,123,606.41)	464,751.55
Finance expense	6,583,401.89	1,391,536.99
Investment income	(589,379.17)	(2,996,374.90)
Gain on debt restructuring of accounts payable	(21,472,524.42)	-
Increase in deferred tax assets	(1,419,212.41)	(16,624,186.69)
Decrease in inventories("()" for increase)	176,766,420.18	(35,653,926.19)
Increase in operating receivable	(305,974,262.80)	(91,577,090.32)
Increase in operating payable	15,045,636.34	134,959,642.53
Net cash flows from operating activities	<u>(77,588,452.04)</u>	<u>7,571,011.30</u>
<b>2. Net change in cash and cash equivalents:</b>		
Cash balance at the end of the year	139,391,654.25	89,677,792.83
Less: cash balance at the beginning of the year	89,677,792.83	175,808,019.62
Net increase in cash and cash equivalents ("()" for decrease)	49,713,861.42	(86,130,226.79)

#### (2) Composition of cash and cash equivalents

Item	2013	Unit: RMB 2012
Cash		
Including: cash on hand	675,618.41	314,067.72
Bank deposits available on demand	138,716,035.84	89,363,725.11
Cash balance at the end of the year	<u>139,391,654.25</u>	<u>89,677,792.83</u>

Note: Cash disclosed above does not include the amounts of monetary funds with restricted usage and short-term investments.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Director's remuneration

Details of director's remuneration for the year ended 31st December 2013:

Unit: RMB'000

	Director's fee	Salaries, allowance and benefits in kind	Retirement scheme contribution	Discretionary bonus (v)	Total
Executive directors:					
Wang Xing ( <i>Chairman</i> )	99	402	75	250	826
Zhang Xiaoyi	80	388	56	280	804
Ye Nong	64	346	75	215	700
Li Shunzhen	64	327	64	30	485
Non-executive directors:					
Guan Xin	57	–	–	–	57
Gao Minghui	64	401	32	50	547
Zhang Tao ( <i>i</i> )	–	–	–	–	–
Li Zhenxiong ( <i>i</i> )	–	–	–	–	–
Independent directors:					
Li Dongru ( <i>ii</i> )	119	–	–	–	119
Chen Fusheng	200	–	–	–	200
Xiao Jianming	143	–	–	–	143
Yu Chengting ( <i>iii</i> )	30	–	–	–	30
Liu Minghui ( <i>iv</i> )	36	–	–	–	36
Yang Xiongsheng ( <i>iv</i> )	113	–	–	–	113
Total	<u>1,069</u>	<u>1,864</u>	<u>302</u>	<u>825</u>	<u>4,060</u>

Note:

- (i) The director had elected to waive any remuneration to him from the Group.
- (ii) On 29 June 2013, Ms. Li Dong resigned due to the tenure of appointment expired.
- (iii) The Company held a 2nd EMG 26 August 2013 to review and approve Mr. Yu Cheng as independent non-executive director of the Company. On 12 December 2013, Mr. Yu submitted the resignation due to personal health reason.
- (iv) On 22 March 2013, Mr. Liu Minghui resigned due to the tenure of appointment expired and Mr. Yang Xiongsheng replace his position as an independent non-executive director of the Company.
- (v) Discretionary bonuses represent the bonuses paid in 2013 and related to the performance of 2012.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Director's remuneration (Continued)

Details of director's remuneration for the year ended 31st December 2012:

Unit: RMB'000

	Director's fee	Salaries, allowance and benefits in kind	Retirement scheme contribution	Discretionary bonus (iii)	Total
Executive directors:					
Wang Xing (Chairman)	100	404	68	161	733
Zhang Xiaoyi	83	402	50	201	736
Ye Nong	64	344	68	251	727
Li Shunzhen	64	346	59	31	500
Pi Jianguo (i)	–	–	–	50	50
Non-executive directors:					
Guan Xin	57	–	–	–	57
Gao Minghui	64	408	–	161	633
Zhang Tao (ii)	–	–	–	–	–
Li Zhenxiong (ii)	–	–	–	–	–
Independent directors:					
Li Dongru	143	–	–	–	143
Chen Fusheng	200	–	–	–	200
Xiao Jianming	143	–	–	–	143
Liu Minghui	143	–	–	–	143
Total	<u>1,061</u>	<u>1,904</u>	<u>245</u>	<u>855</u>	<u>4,065</u>

Note:

- (i) Mr. Pi Jianguo has resigned on 31st October 2011 because of the expiration of term of office.
- (ii) The director had elected to waive any remuneration to him from the Group.
- (iii) Discretionary bonuses represent the bonuses paid in 2012 and related to the performance of 2011.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (V). NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50. Individuals With Highest Emoluments

Of the five individuals with the highest emoluments, three (2012: four) are directors whose emolument are disclosed in note V. 49. The aggregate of the emoluments in respect of the remaining individuals are as follows:

Item	Unit: RMB'000	
	2013	2012
Salaries and other emoluments	698	346
Discretionary bonuses	375	50
Retirement scheme contributions	112	251
Total	<u>1,185</u>	<u>647</u>

The emoluments of the two individual (2012: one) with the highest emoluments are within the following band:

Item	2013	2012
HKD Nil – HKD 1,000,000	2	1

### 51. Capital management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern and profitability by pricing its products with the level of risks it faced and by securing access to finance at a reasonable cost, so as to maintain sustainable development of the Group and provide return to the shareholders.

The Group manages the amount of capital in proportion to risk and manages its debt portfolio in conjunction with projected financing requirements. In accordance with industry practice, the Group monitors capital structure on the basis of the debt to equity ratio, which is calculated on total debt as a percentage of the total assets.

There was no change in the Group's approach to capital management during 2013 as compared with prior years, i.e. maintaining the debt to equity ratio at a reasonable range. To maintain or adjust this ratio, the Group may adjust the dividend payment to shareholders, implement debt finance and dispose of assets to reduce debts. The Group's debt to equity ratio was 51% as at 31 December 2013 (31 December 2012: 46%).

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

## (VI). RELATED PARTIES AND TRANSACTIONS

### 1. Information on the largest shareholder of the Company

Name of the largest shareholder	Type	Place of registration	Legal representative	Business nature	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Ultimate controlling shareholder of the Company	Organization code
Shenji Group	Limited liability company	China	Guan Xiyou	Production and sales of machine tools	RMB1,556,480,000	25.09	25.09	Shenyang state-owned assets supervision and administration commission	243381258

### 2. Subsidiaries of the Company

Please see Note IV for information of subsidiaries of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS *(Continued)*

### 3. Jointly controlled enterprises and associated companies of the Company

Name of investee	Type	Place of registration	Legal representative	Business nature	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Organization code
1. Jointly controlled enterprise Kunming TOS	Limited liability company	China	Ing. JanRYDL	Production and sales of machine tools	EUR5,000,000	50	50	77266099-X
2. Associated company Xi'an Ruite	Limited liability company	China	Tian Huisheng	Production and sales of laser prototyping machine	RMB60,000,000	23.34	23.34	79166780-4

### 4. Information on other related parties

Name of other related parties	Related relationship	Organization code
Yunnan Yun Ji Group Import and Export Co., Ltd. ("Yun Ji I & E Co.")	Subsidiary of the largest shareholder of the Company	709781545
Yunnan CY Group Co., Ltd.	Subsidiary of the largest shareholder of the Company	919190831
Kunming Kunji Group Co., Ltd. ("Kunji Group Co.")	Subsidiary of the second largest shareholder of the Company	216547232
Yunnan State-owned Assets Property Management Co., Ltd. ("Yunnan State-owned Assets Property")	Subsidiary of the second largest shareholder of the Company	291887852
Yunnan CY (Group) Company Jinhui Spraying Factory ("Jinhui Spraying Factory")	Subsidiary of the largest shareholder of the Company	99211416-5
Yunnan CY Group Co., Ltd., Products Trading Centre ("Trading Centre")	Subsidiary of the largest shareholder of the Company	292147185
Shenyang Machine Tool (Group) Kunming Co., Ltd.	Subsidiary of the largest shareholder of the Company	76705620-2
Shenyang Machine Tool Yinfeng Casting Co., Ltd. ("Yinfeng Casting")	Subsidiary of the largest shareholder of the Company	750755517
SCHIESS GmbH ("SchieSS")	Subsidiary of the largest shareholder of the Company	Not applicable

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS (Continued)

### 5. Related party transactions

#### (1) Summary of related party transactions

The Group

Related party	Nature of connected transactions	Pricing method and decision-making procedures of connected transactions	2013		Unit: RMB 2012	
			Amount	Percentage of the same type of transactions (%)	Amount	Percentage of the same type of transactions (%)
Key management (Note 6)	Service Remuneration	Based on relevant terms of agreement	7,547,345.15	2.95	7,292,899.68	2.49
Trading Centre	Sales of goods	Based on relevant terms of agreement	-	-	294,871.79	0.03
Kunming TOS (Note 4)	Sales of goods	Based on normal commercial terms	9,204,228.36	0.89	8,314,124.19	0.78
Yunji I & E Co.	Sales of goods	Based on normal commercial terms	358,974.36	0.03	282,615.38	0.03
Yinfeng Casting	Sales of goods	Based on normal commercial terms	2,918,158.97	0.28	-	-
Kunming TOS (Note 4)	Purchase of goods	Based on normal commercial terms	22,442,545.11	3.96	74,850,427.35	10.97
Jinhui Spraying Factory (Note 5)	Purchase of goods	Based on normal commercial terms	3,323,458.74	0.59	3,855,789.70	0.57
Shenyang Machine Tool (Group) Kunming Co., Ltd.	Purchase of premises	Based on relevant terms of agreement	-	-	350,000.00	0.34
Kunming TOS	Receipt of funds-funding transactions	Based on relevant terms of agreement	23,940,000.00	100.00	30,000,000.00	100.00
Kunming TOS	Provision of funds-other expenses on behalf of related parties	Based on relevant terms of agreement	4,371,333.75	100.00	4,396,759.90	100.00
Yunnan CY Group Co., Ltd.	Rendering of service	Based on normal commercial terms	7,798.28	0.04	63,459.84	0.41
Yunnan CY Group Co., Ltd.	Receipt of service	Based on normal commercial terms	-	-	66,500.00	0.01
Kunji Group Co. (Note 1)	Receipt of service	Based on relevant terms of agreement	-	-	130,772.88	0.02
Yunnan State-owned Assets Property	Receipt of service	Based on relevant terms of agreement	683,518.62	0.12	409,082.10	0.06
Schiess (Note 2)	Payment of contract technology license fees	Based on relevant terms of agreement	10,834,962.80	100.00	10,575,351.60	100.00
Schiess (Note 2)	Receipt of service	Based on relevant terms of agreement	2,462,037.00	0.43	-	-
Schiess (Note 3)	Purchase of equipment	Based on relevant terms of agreement	17,984,737.21	15.70	18,844,219.15	18.46
Kunji Group Co. (VI. 5(2))	Leasing	Based on relevant terms of agreement	5,250,000.00	72.57	5,250,000.00	69.36
Yunnan State-owned Assets Property (VI.5(2))	Leasing	Based on relevant terms of agreement	1,196,871.00	16.54	1,306,065.00	17.26

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS (Continued)

### 5. Related party transactions (Continued)

#### (1) Summary of related party transactions (Continued)

The Company

Related party	Nature of connected transactions	Pricing method and decision-making procedures of connected transactions	2013		2012	
			Amount	Percentage of the same type of transactions (%)	Amount	Percentage of the same type of transactions (%)
Key management (Note 6)	Service Remuneration	Based on relevant terms of agreement	7,547,345.15	3.29	7,292,899.68	2.75
Trading Centre	Sales of goods	Based on relevant terms of agreement	-	-	294,871.79	0.03
Kunming TOS (Note 4)	Sales of goods	Based on normal commercial terms	9,204,228.36	1.04	8,314,124.19	0.95
Yunji I & E Co.	Sales of goods	Based on normal commercial terms	358,974.36	0.04	282,615.38	0.03
Yinfeng Casting	Sales of goods	Based on normal commercial terms	2,918,158.97	0.33	-	-
Kunming TOS (Note 4)	Purchase of goods	Based on normal commercial terms	22,442,545.11	5.46	74,850,427.35	13.33
Jinhui Spraying Factory (Note 5)	Purchase of goods	Based on normal commercial terms	3,323,458.74	0.81	3,855,789.70	0.69
General Machine	Purchase of goods	Based on normal commercial terms	-	-	20,000,000.00	3.56
Shenyang Machine Tool (Group) Kunming Co., Ltd.	Purchase of premises	Based on relevant terms of agreement	-	-	350,000.00	0.35
General Machine	Receipt of funds-funding transactions	Based on relevant terms of agreement	105,000,000.00	81.43	-	-
Kunming TOS	Receipt of funds-funding transactions	Based on relevant terms of agreement	23,940,000.00	18.57	30,000,000.00	100.00
Kunming TOS	Provision of funds-other expenses on behalf of related parties	Based on relevant terms of agreement	4,371,333.75	97.65	4,396,759.90	98.39
Xi'an Ser	Rendering of service	Based on relevant terms of agreement	105,212.17	2.35	72,149.57	0.47
Xi'an Ser	Interest income	Based on relevant terms of agreement	584,100.00	100.00	584,100.00	100.00
Yunnan CY Group Co., Ltd.	Receipt of service	Based on normal commercial terms	-	-	66,500.00	0.01
Yunnan CY Group Co., Ltd.	Rendering of service	Based on normal commercial terms	7,798.28	0.04	63,459.84	0.41
Kunji Group Co. (Note 1)	Receipt of service	Based on relevant terms of agreement	-	-	130,772.88	0.02
Yunnan State-owned Assets Property	Receipt of service	Based on relevant terms of agreement	683,518.62	0.17	409,082.10	0.07
Schiess (Note 2)	Payment of contract technology license fees	Based on relevant terms of agreement	10,834,962.80	100.00	10,575,351.60	100.00
Schiess (Note 2)	Receipt of service	Based on relevant terms of agreement	2,462,037.00	0.60	-	-
Schiess (Note 3)	Purchase of equipment	Based on relevant terms of agreement	17,984,737.21	15.71	18,844,219.15	18.66
Kunji Group Co. (VI. 5(2))	Leasing	Based on relevant terms of agreement	5,250,000.00	72.61	5,250,000.00	71.97
Yunnan State-owned Assets Property (VI. 5(2))	Leasing	Based on relevant terms of agreement	1,196,871.00	16.56	1,306,065.00	17.90

Unit: RMB



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS *(Continued)*

### 5. Related party transactions *(Continued)*

#### (1) Summary of related party transactions *(Continued)*

*Note 1:* According to the services agreement entered into between the Company and Kunji Group Company, the Company agreed to provide certain public utility services such as water and electricity to Kunji Group Company, while Kunji Group Company agreed to provide certain services to the Company including property management, employee's medical services, education and administration of retired staff. Service fee is reviewed by both parties on an annual basis.

*Note 2:* As reviewed and approved by the first extraordinary general meeting of 2011 of the Company held on 18th July 2011, the Company and Schiess entered into the Proprietary Technology and Patent Licensing Contract to introduce the proprietary technology for the design, manufacture and installation of double column 2000mm-crossrail machine ("contract products"), and obtain the exclusive and non-transferable license for the production in PRC and sale in Asia of these contract products.

According to the Proprietary Technology and Patent Licensing Contract, contractual expenses include:

- License Fee in one lump-sum: EUR6,600,000;
- Technical training fees: EUR700,000; and
- Technical service fees for the first two prototype machines of machine models VMG6 and VM8: EUR200,000;

Payment of contract technology license fees

On 31 December 2013, according to the terms of the contract, the Company has accumulately paid 70% of contract technology license fee to Schiess, e.g. EUR4,620,000 (equivalent of RMB39,656,925.20). The Company has received some parts of technology documents for the first prototype machine (including design drawings, technical solutions and directory). On 31 December 2012, the Company accumulately paid EUR3,300,000 contract technology license fee to Schiess (equivalent of RMB28,821,962.40). The above stated amounts were included in the balance sheet as other non-current assets (see V. 15).

Staff technical training fee

In November 2011 and June 2013, the Company paid EUR400,000 (equivalent of RMB3,483,152.00) and EUR300,000 (equivalent of RMB2,462,037.00) separately for staff technical training fee to Schiess respectively.

*Note 3:* In December 2011, the Company and Schiess entered into a contract to purchase assembly components of VMG6 prototype machine from Schiess with an amount of EUR4,481,309.00. In April 2012, under the terms of the contract, the Company prepaid EUR2,240,654.50 (equivalent to RMB18,844,219.15) to Schiess for VMG6 prototype machine. As at 31st December 2012, such amount together with the accumulated prepaid contract technology license fee was included in the balance sheet as other non-current assets (refer to Note V. 15).

In September 2013, the Company paid the remaining amount of EUR2,227,024.50 (equivalent of RMB17,984,737.21) to Schiess for purchase VMG6 prototype machine. As at 31 December 2013, the Company has received VMG6 prototype machine but the installation has not been completed. Therefore, as at 31 December 2013, the payment of VM6 prototype machine to Schiess was transferred to construction in progress (see V. 10) included in the balance sheet.

*Note 4:* In 2013, the ordinary business framework agreement was entered between the Company and Kunming TOS regarding the purchase of goods, receipt of services, sales of goods and provision of services for the year 2013 etc..

*Note 5:* The framework agreement was entered between the Company and Jinhui Spraying Factory regarding the purchase of machine tool's packing material in 2011 with effective from 21st September 2011 to 31st December 2013.

*Note 6:* The amount comprised remunerations paid to directors (see Note V. 49) and certain highest paid employees (see Note V. 50) of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS (Continued)

### 5. Related party transactions (Continued)

#### (2) Leases:

Leasing information of the Group and the Company

						<i>Unit: RMB</i>
Name of leaser	Name of leasee	Type of leased assets	Inception date of lease	Maturity date of lease	Basis for determining lease fee	Lease fee recognised in 2013
Yunnan State-owned Assets Property	The Company	Land and premises	1st January 2011	31st December 2013	Based on relevant terms of agreement (Note 1)	1,196,871.00
Kunji Group Co.	The Company	Land and premises	12th November 2001	11th November 2021	Based on relevant terms of agreement (Note 2)	5,250,000.00

Note 1: For leasing land and premises from Yunnan State-owned Assets Property.

The rental agreement for land and premises was entered between the Company and Yunnan State-owned Assets Property. on 28th July 2011. The rental for the first, second and third year amounted to RMB989,150, RMB1,088,065 and RMB1,196,871, respectively. The agreement was effective from 1st January 2011 to 31st December 2013.

Note 2: For leasing premises and land use rights from Kunji Group Co..

Kunji Group Co. was authorized by the People's Government of Yunnan Province to succeed the rights and obligations of the "The Premise Rental Agreement" and "The Land Use Rights Rental Agreement" signed between the People's Government of Yunnan Province and the Company on 12th November 2001. According to the contract, the date of lease was effective from 12 November 2001 to 11 November 2021. The rental fee would be adjusted one time every three years.

On 1st February 2011, the Company entered into an agreement for rental adjustment with Kunji Group Co.. The annual rent of land use rights was adjusted to RMB4,457,340, and the annual rent of premises was adjusted to RMB792,660. The adjusted annual rent was effective from 12th November 2010 to 11th November 2013. As at the date of this report, the company did not enter into new agreement.

### 6. Receivables and payables from/to related parties

The Group

Receivables from related parties

		2013		2012	
Item	Related parties	Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Bills receivable	Trading Center	-	-	160,000.00	-
Accounts receivable	Kunming TOS	4,538,294.31	-	4,181,928.75	-
Other receivables	Kunming TOS	1,775,181.97	-	370,448.02	-
Prepayments	Yunnan State-owned Assets Property	-	-	9,000.00	-
Other non-current assets	Schiess	39,656,925.20	-	47,666,181.55	-

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VI). RELATED PARTIES AND TRANSACTIONS (Continued)

### 6. Receivables and payables from/to related parties (Continued)

Payables to related parties

Item	Related parties	Unit: RMB	
		2013	2012
Accounts payable	Kunming TOS	14,906,079.25	33,230,241.15
Accounts payable	Jinhui Spraying Factory	3,332,452.41	1,094,005.69
Advances from customers	Trading Center	5,000.00	5,000.00
Other payables	Kunji Group Company	5,250,000.00	5,250,000.00
Other payables	Yunnan State-owned Assets Property	777,824.00	–
Accounts payable	Shenyang Machine Tool Co., Ltd.	–	125,641.03
Bills payable	Kunming TOS	23,940,000.00	–

The Company

Receivables from related parties

Item	Related parties	2013		2012	
		Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Bills receivable	Trading Center	–	–	160,000.00	–
Accounts receivable	Kunming TOS	4,538,294.31	–	4,181,928.75	–
Accounts receivable	Changsha Ser	244,000.00	–	244,000.00	–
Other receivables	Kunming TOS	1,775,181.97	–	370,448.02	–
Other receivables	Xi'an Ser	7,660,306.76	–	7,220,746.31	–
Prepayments	Yunnan State-owned Assets Property	–	–	9,000.00	–
Other non-current assets	Schiess	39,656,925.20	–	47,666,181.55	–
Dividend receivable	Xi'an Ser	11,000,000.00	–	11,000,000.00	–

Payables to related parties

Item	Related parties	Unit: RMB	
		2013	2012
Accounts payable	Kunming TOS	14,906,079.25	33,230,241.15
Accounts payable	Jinhui Spraying Factory	3,332,452.41	1,094,005.69
Accounts payable	Shenyang Machine Tool Co., Ltd.	–	125,641.03
Advances from customers	Trading Center	5,000.00	5,000.00
Advances from customers	Changsha Ser	9,120.67	9,120.67
Other payables	General machine	3,000,000.00	–
Other payables	Kunji Group Company	5,250,000.00	5,250,000.00
Other payables	Yunnan State-owned Assets Property	777,824.00	–
Bills payable	Kunming TOS	23,940,000.00	–

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (VII). COMMITMENTS

### 1. Significant commitments

#### (1) Capital commitments

Item	2013	Unit: RMB
		2012
Construction contract signed but not implemented or not fully implemented	113,015,982.80	167,161,428.53
Construction contract authorized but not signed or not implemented or not fully implemented	257,729,722.41	273,919,396.41
Proprietary technology and patent licensing contract signed and implementing or proposed to implement	43,925,092.67	70,113,578.61
Total	<u>414,670,797.88</u>	<u>511,194,403.55</u>

#### (2) Operating Lease commitments

According to the irrevocable lease agreement of premises, the minimum lease payments after the date of 31st December that the Group should pay are as follows:

Item	2013	Unit: RMB
		2012
Within 1 year (including 1 year)	5,844,746.33	7,878,041.00
1-2 years (including 2 years)	5,352,600.00	5,941,200.00
2-3 years (including 3 years)	5,264,500.00	5,250,000.00
Over 3 years	25,375,000.00	30,625,000.00
Total	<u>41,836,846.33</u>	<u>49,694,241.00</u>

## (VIII). EVENTS AFTER BALANCE SHEET DATE

### Explanation of profit appropriation after the balance sheet date

The Board of directors did not propose to distribute cash dividends on ordinary shares in accordance with the Company's dividend policy after the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS

### 1. Leases

Please refer to note V. 28 for information of amounts payable of the Group in respect of finance lease.

### 2. Segment Reporting

According to the internal organization structure, the requirements of management and internal reporting system, the Group defined its business into two reportable segments – boring machine and turbo machines. Each reportable segment is a separate business unit and provides different goods and services. As each segment needs different technology and marketing strategy, it needs separate management. The management of the Group will review the financial information of different segment regularly for the purpose of resources allocation and assessment of segment performance.

#### (1) *Information of gain or loss, assets and liabilities for the reporting segments*

In order to assess the performance of each segment and to allocate resources, the management of the Group will review assets, liabilities, income, expenses, and operating results which attribute to each segment. The preparation basis of these information is as follows:

Segment assets include current assets of all tangible assets, intangible assets, accounts receivable, prepayments, and inventories attributable to each segment, but not including deferred tax assets caused by the unrealized gains and losses of the Group's internal transactions, long-term equity investment and other undistributed assets of headquarters. Segment liabilities include accounts payable, advance from customers, bank loans and expected liabilities attributable to each segment.

Segment operating results is about the income generated by each segment (including income from transactions with outside parties and income from transactions between segments), deducting expenses caused by each segment, depreciation, amortization and impairment losses attributable to assets of each segment, and the net interest expense arising from between bank deposit and bank loans attributable to each segment. The pricing of transactions between segments is similar to that of transactions with outside parties. The Group did not allocate investment income and directors' remuneration to each segment.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS (Continued)

### 2. Segment Reporting (Continued)

#### (1) Information of gain or loss, assets and liabilities for the reporting segments (Continued)

The information of each reportable segment of the Group disclosed below is the data for the management of the Group to calculate the profit (loss), assets and liabilities of each segment or data not being used but provided to management regularly:

2013

Unit: RMB

Item	Business segment of boring machines	Business segment of turbo machines	Elimination between segments	Undistributed items	Total
Revenue from external customers	915,995,230.62	146,840,024.65	-	-	1,062,835,255.27
Inter-segment revenue	584,100.00	-	(584,100.00)	-	-
Investment income from jointly controlled enterprises and associated companies	-	-	-	589,379.17	589,379.17
Impairment loss of assets ("() for reversal)	(5,371,878.70)	3,018,536.53	-	-	(2,353,342.17)
Depreciation and amortization expenses	41,586,502.78	7,036,287.42	-	-	48,622,790.20
Interest income from bank deposits	306,075.22	163,356.60	-	-	469,431.82
Interest expense	4,325,653.08	2,409,558.05	-	-	6,151,111.13
Total profit ("() for total loss)	3,188,089.15	3,184,686.42	-	2,292,145.20	8,664,920.77
Income tax expenses ("() for income tax credit)	(472,688.14)	(242,816.80)	-	55,134.60	(660,370.34)
Net profits ("() for net loss)	3,660,777.29	3,427,503.22	-	2,237,010.60	9,325,291.11
Total assets	2,339,926,917.41	415,465,815.24	(21,913,427.43)	59,790,899.74	2,793,270,204.96
Total liabilities	1,112,582,085.92	329,685,839.81	(21,913,427.43)	-	1,420,354,498.30
Other significant non-cash items:					
- other non-cash expenses other than depreciation and amortization	7,514,206.62	-	-	-	7,514,206.62
- long-term equity investment	-	-	-	59,035,592.43	59,035,592.43
- other increment of non-current assets other than long-term equity investment ("() for decrease)	128,510,822.29	(3,203,681.32)	(265,032.88)	-	125,042,108.09

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS (Continued)

### 2. Segment Reporting (Continued)

#### (1) Information of gain or loss, assets and liabilities for the reporting segments (Continued)

2012

Unit: RMB

Item	Business segment of boring machines	Business segment of turbo machines	Elimination between segments	Undistributed items	Total
Revenue from external customers	898,760,425.29	187,550,670.49	-	-	1,086,311,095.78
Inter-segment revenue	-	-	-	-	-
Investment income from jointly controlled enterprises and associated companies	-	-	-	1,055,320.73	1,055,320.73
Impairment loss of assets for the period	32,908,078.70	19,354,234.97	-	-	52,262,313.67
Depreciation and amortization expenses	40,019,120.88	7,292,183.90	-	-	47,311,304.78
Interest income from bank deposits	500,844.53	155,090.11	-	-	655,934.64
Interest expense	317,008.34	1,575,414.19	-	-	1,892,422.53
Total profit ("()") for total loss)	(79,562,656.82)	(16,747,683.18)	-	1,070,066.14	(95,240,273.86)
Income tax expenses ("()") for income tax credit)	(12,343,710.97)	(769,148.21)	-	168,680.32	(12,944,178.86)
Net profits ("()") for net loss)	(67,218,945.85)	(15,978,534.97)	-	901,385.82	(82,296,095.00)
Total assets	2,112,174,009.05	395,116,739.44	(18,473,866.98)	59,935,343.59	2,548,752,225.10
Total liabilities	890,871,409.30	312,764,267.23	(18,473,866.98)	-	1,185,161,809.55
Other significant non-cash items:					
- other non-cash expenses other than depreciation and amortization	61,870,425.13	-	-	-	61,870,425.13
- long-term equity investment	-	-	-	59,124,901.68	59,124,901.68
- other increment of non-current assets other than long-term equity investment	136,106,324.12	661,936.60	-	-	136,768,260.72

#### (2) Geographic Information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods delivered or the services were provided.

Item	2013	2012
China	1,032,536,924.02	1,066,795,765.11
International	30,298,331.25	19,515,330.67
Total	<u>1,062,835,255.27</u>	<u>1,086,311,095.78</u>

The non-current assets of the Group are located in the mainland of China.

#### (3) Major Customers

All revenues of the Group from individual customers are lower than 10% of total revenues of the Group for the year 2013 and 2012.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS *(Continued)*

### 3. Risk and sensitivity analysis and fair value of financial instruments

The Group is exposed to the following risks from financial instruments during its ordinary activities:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk

This note presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks, etc.

The goal of the Group's involvement in risk management is to balance the risk and revenue and minimize the adverse effects on financial results of the Group brought by the financial risks. The Group's risk management policies are established to identify and analyze the risks confronted by the Group, to set appropriate risk limits and control program, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The internal audit department of the Group also examines whether the exercise of internal control system meets the requirements of risk management policies on periodical and random basis.

#### (1) *Credit Risk*

Credit risk refers to the risk of financial loss incurred to one party of the financial instrument due to the other party's failure of performing its duty. The Group's credit risk is primarily attributable to monetary capital and accounts receivables, etc.. Exposure to these credit risks are monitored by management on an ongoing basis.

As the Group principally puts monetary funds excluding cash to the financial institutions with good credit standing, the management considers that there is no significant credit risk and the Group will not incur loss from the counterparty's default.

In respect of receivables, the sales department of the Group has established a credit policy under which individual credit evaluations are performed on all customers to determine the amount and term of credit. Credit grading is depending on the financial condition, external grading and bank credit record (if any). Generally, except for deposit for warranty, all payments have to be paid by the end of the negotiated credit term. The group authorized credit term to customers according to their payment records and transaction performance, generally, the credit term will be one to three months. Normally, the Group does not require collateral from customers.

In monitoring customer credit risk, customers are grouped according to some factors, such as ageing and maturity date.

The accounts receivable of the Group and the Company as at 31st December 2013 and 31st December 2012 that are overdue but not impaired assessed via individual and collective basis are not significant.

The credit risk of the Group is principally impacted by self-characteristics of each customer other than their industries or countries and areas where their businesses operate. Therefore, significant concentration of credit risk is principally attributable to individual customers' significant accounts receivable. 21.34% (2012: 29.73%) of the total accounts receivable and other receivables was due from the Group's top five buyers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees resulted in credit risk exposure.

#### (2) *Liquidity risk*

Liquidity refers to the risk of short of funds when an enterprise performs its duty related to financial liabilities. The Group and its subsidiaries are responsible for their own cash management, including short-term investment for surplus cash and the raising of loans to satisfy expected cash demands (if the amount of borrowings exceeds the preset limits, the approval from the board of directors is required). On the other hand, the Company also considers to negotiate with the suppliers by requiring them to adjust some amount of the debts, or using the measure of sale long ageing accounts receivable to obtain money in advance to reduce the pressure of cash flow of the Company. The Group's policy is to regularly monitor its short-term and long-term liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS (Continued)

### 3. Risk and sensitivity analysis and fair value of financial instruments (Continued)

#### (2) Liquidity risk (Continued)

As at the balance sheet date, the residual contractual term of the financial assets and liabilities of the Group calculated at the undiscounted contractual cash flow (including at contractual interest (in the case of floating rate, at the prevailing interest as at 31st December) and their earliest date required to be repaid are as follows:

Unit: RMB

Item	2013 Undiscounted contractual cash flow				Total	Carrying amount at balance sheet
	Within one year or on demand	1-2 years	2-5 years	Over 5 years		
<b>Financial assets</b>						
- Cash at bank and on hand	181,805,670.00	-	-	-	181,805,670.00	181,805,670.00
- Accounts receivable and other receivables	434,295,591.98	-	-	-	434,295,591.98	434,295,591.98
- Bills receivable	193,617,520.47	-	-	-	193,617,520.47	193,617,520.47
Sub-total	<u>809,718,782.45</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>809,718,782.45</u>	<u>809,718,782.45</u>
<b>Financial liabilities</b>						
- Short term loans	(310,861,512.05)	-	-	-	(310,861,512.05)	(299,279,000.00)
- Accounts payable and other payables	(625,107,858.48)	-	-	-	(625,107,858.48)	(625,107,858.48)
- Employee benefits payable	(10,274,562.00)	(1,391,958.57)	(1,081,361.49)	(147,473.30)	(12,895,355.36)	(12,787,886.41)
- Bills payable	(67,742,506.00)	-	-	-	(67,742,506.00)	(67,742,506.00)
- Taxes payable	(24,202,207.26)	-	-	-	(24,202,207.26)	(24,202,207.26)
- Finance lease amount payable	(342,168.88)	(342,168.88)	(1,026,506.64)	(1,026,507.74)	(2,737,352.14)	(1,705,672.90)
Sub-total	<u>(1,038,530,814.67)</u>	<u>(1,734,127.45)</u>	<u>(2,107,868.13)</u>	<u>(1,173,981.04)</u>	<u>(1,043,546,791.29)</u>	<u>(1,030,825,131.05)</u>
Net amount	<u>(228,812,032.22)</u>	<u>(1,734,127.45)</u>	<u>(2,107,868.13)</u>	<u>(1,173,981.04)</u>	<u>(233,828,008.84)</u>	<u>(221,106,348.60)</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS *(Continued)*

### 3. Risk and sensitivity analysis and fair value of financial instruments *(Continued)*

#### (2) Liquidity risk *(Continued)*

Unit: RMB

Item	Within one year or on demand	2012 Undiscounted contractual cash flow			Total	Carrying amount at balance sheet
		1-2 years	2-5 years	Over 5 years		
<b>Financial assets</b>						
- Cash at bank and on hand	98,887,040.73	-	-	-	98,887,040.73	98,887,040.73
- Accounts receivable and other receivables	310,564,102.16	-	-	-	310,564,102.16	310,564,102.16
- Bills receivable	74,194,825.88	-	-	-	74,194,825.88	74,194,825.88
Sub-total	<u>483,645,968.77</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,645,968.77</u>	<u>483,645,968.77</u>
<b>Financial liabilities</b>						
- Short term loans	(108,583,522.85)	-	-	-	(108,583,522.85)	(105,000,000.00)
- Accounts payable and other payables	(580,181,787.33)	-	-	-	(580,181,787.33)	(580,181,787.33)
- Employee benefits payable	(19,779,809.31)	(2,750,556.88)	(3,246,845.12)	(801,470.20)	(26,578,681.51)	(25,500,401.68)
- Bills payable	(28,693,005.00)	-	-	-	(28,693,005.00)	(28,693,005.00)
- Taxes payable	(12,322,840.16)	-	-	-	(12,322,840.16)	(12,322,840.16)
- Finance lease amount payable	(342,168.88)	(342,168.88)	(1,026,506.64)	(1,368,676.62)	(3,079,521.02)	(1,918,881.90)
Sub-total	<u>(749,903,133.53)</u>	<u>(3,092,725.76)</u>	<u>(4,273,351.76)</u>	<u>(2,170,146.82)</u>	<u>(759,439,357.87)</u>	<u>(753,616,916.07)</u>
Net amount	<u>(266,257,164.76)</u>	<u>(3,092,725.76)</u>	<u>(4,273,351.76)</u>	<u>(2,170,146.82)</u>	<u>(275,793,389.10)</u>	<u>(269,970,947.30)</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS *(Continued)*

### 3. Risk and sensitivity analysis and fair value of financial instruments *(Continued)*

#### (3) Interest Rate Risk

The Group's exposure to fair value interest rate risk and cash flow interest rate risk mainly arise from interest-bearing financial instruments with fixed rate and floating rate. The Group determined the proportion of fixed interest rate and floating interest rate risk based on the market conditions and maintained an appropriate mix of fixed interest rate and floating interest rate through regular review and supervision. The Company did not hedge interest rate risk with derivative financial instruments.

- (a) The interest-bearing financial instruments held by the Group as at 31st December are as follows:

Item	2013	Unit: RMB
	Amount	2012 Amount
Fixed interest rate financial instruments		
Financial liabilities		
– short-term borrowings	<u>(213,575,500.00)</u>	<u>(15,000,000.00)</u>
Total	<u>(213,575,500.00)</u>	<u>(15,000,000.00)</u>
Floating interest rate financial instruments		
Financial assets		
– monetary fund	181,130,051.59	98,887,040.73
Financial liabilities		
– short-term borrowings	<u>(85,703,500.00)</u>	<u>(90,000,000.00)</u>
Total	<u>95,426,551.59</u>	<u>8,887,040.73</u>

- (b) Sensitivity Analysis

As at 31st December 2013 and 31st December 2012, if the interest rates had been 1 basis point higher/lower and all other variables held constant, the net profit and shareholder equity of the Group would increase/decrease RMB8,111.26 (2012: RMB755.40).

The sensitivity analysis above indicates the instantaneous change in the net profit and shareholder equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the net profit and shareholder equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the prior year.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS (Continued)

### 3. Risk and sensitivity analysis and fair value of financial instruments (Continued)

#### (4) Foreign Exchange Risk

In respect of accounts receivables and payables denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

- (a) The Group's exposure as at 31st December to currency risk arising from recognised major assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

*Unit: RMB*

	2013				2012			
	EUR	USD	JPY	HKD	EUR	USD	JPY	HKD
Cash at bank and on hand	19,477.80	9,457,056.02	-	7,084,400.08	78,036.97	7,610,970.34	-	7,226,972.01
Accounts receivable	-	2,458,239.58	-	-	-	1,893,784.06	-	-
Other receivables	-	-	-	1,592.74	-	-	-	-
Prepayments	4,708,342.40	227,113.50	503,947.53	-	2,571,246.68	1,023,610.07	257,225.32	-
Accounts receivable	(4,631,768.21)	(91,601.17)	(193,189.88)	-	-	-	-	-
Advance from customers	-	(5,605,832.50)	-	-	-	(3,714,474.69)	-	-
Total balance sheet exposure	<u>96,051.99</u>	<u>6,444,975.43</u>	<u>310,757.65</u>	<u>7,085,992.82</u>	<u>2,649,283.65</u>	<u>6,813,889.78</u>	<u>257,225.32</u>	<u>7,226,972.01</u>

- (b) The exchange rates of RMB to foreign currency applicable by the Group are as follows:

*Unit: RMB*

Item	Average rate		Reporting date mid-spot rate	
	2013	2012	2013	2012
USD	6.1912	6.2932	6.0969	6.2855
JPY	0.0654	0.0771	0.0578	0.0730
HKD	0.7985	0.8108	0.7862	0.8108
EUR	8.3683	8.2401	8.4189	8.3176

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS (Continued)

### 3. Risk and sensitivity analysis and fair value of financial instruments (Continued)

#### (4) Foreign Exchange Risk (Continued)

##### (c) Sensitivity analysis

Assuming all other risk variables other than exchange rate remained constant, a 1% appreciation of the RMB against the USD, Japanese yen, Euro and HKD at 31st December would have increased (decreased) shareholder equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the balance sheet date.

Item	Equity	Unit: RMB Net profit
As at 31st December 2013		
USD	(54,782.29)	(54,782.29)
JPY	(2,641.44)	(2,641.44)
HKD	(60,230.94)	(60,230.94)
EUR	(816.44)	(816.44)
Total	<u>(118,471.11)</u>	<u>(118,471.11)</u>
As at 31st December 2012		
USD	(57,918.06)	(57,918.06)
JPY	(2,186.42)	(2,186.42)
HKD	(61,429.26)	(61,429.26)
EUR	(22,518.91)	(22,518.91)
Total	<u>(144,052.65)</u>	<u>(144,052.65)</u>

A 1% depreciation of the RMB against the USD, Japanese yen, Euro and HKD at 31st December would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been ascertained assuming that the change in foreign exchange rates had occurred at the balance sheet date and had re-measured the exposure to foreign exchange risk for financial instruments held by the Group at that date. The analysis was performed on the same assumption and method of the previous year.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (IX). OTHER SIGNIFICANT EVENTS *(Continued)*

### 3. Risk and sensitivity analysis and fair value of financial instruments *(Continued)*

#### (5) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values at 31st December.

#### (6) Determination of Fair value

The main methods and assumptions applied by the Group to estimate the fair value of financial instruments are as follows.

##### (a) Accounts receivable

The fair value is based on present value of future cash flow forecast, and the discount rate is market rate at balance sheet date.

##### (b) Borrowings and other non-derivative financial liabilities

The fair value of borrowings and other non-derivative financial liabilities is based on present value of future cash flow forecast, and the discount rate is market rate at balance sheet date.

##### (c) Interest rates used for determining fair value

The Group uses the interest rate of RMB loan as of the balance sheet date plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

Item	2013 Interest rate used	2012 Interest rate used
Accounts receivable	6.00%	6.00%
Borrowings and other non-derivative financial liabilities	6.00%	6.00%

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

### 1. Accounts receivable

#### (1) Analysis of the accounts receivable in accordance with the type of customers:

Type of customers	2013	2012
Third parties	482,638,538.50	394,118,535.57
Related parties	4,782,294.31	4,425,928.75
Sub-total	487,420,832.81	398,544,464.32
Less: provision for bad and doubtful debts	155,495,696.39	185,547,357.79
Total	<u>331,925,136.42</u>	<u>212,997,106.53</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 1. Accounts receivable (Continued)

#### (2) Ageing analysis of the accounts receivable:

Ageing	2013		2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year (including one year)	285,151,648.94		135,923,002.67	
1-2 years (including two years)	55,994,242.51		73,253,832.15	
2-3 years (including three years)	34,123,038.26		68,656,121.72	
Over three years	112,151,903.10		120,711,507.78	
Sub-total	487,420,832.81		398,544,464.32	
Less: provision for bad and doubtful debts	155,495,696.39		185,547,357.79	
Total	<u>331,925,136.42</u>		<u>212,997,106.53</u>	

Unit: RMB

The ageing is calculated from the date accounts receivable is recognized.

#### (3) Analysis of the accounts receivable by category

Type	Note	2013				2012			
		Book balance		Provision for bad and doubtful debt		Book balance		Provision for bad and doubtful debt	
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	(4)	-	-	-	-	-	-	-	-
Individually not significant but assessed individually for impairment	(5)	2,525,000.00	0.52	-	-	-	-	-	-
Collectively assessed for impairment*									
Group 1	(6)	480,113,538.50	98.50	155,495,696.39	32.39	394,118,535.57	98.89	185,547,357.79	47.08
Group 2	(11)	4,782,294.31	0.98	-	-	4,425,928.75	1.11	-	-
Sub-total of groups		<u>484,895,832.81</u>	<u>99.48</u>	<u>155,495,696.39</u>	<u>32.07</u>	<u>398,544,464.32</u>	<u>100.00</u>	<u>185,547,357.79</u>	<u>46.56</u>
Total		<u>487,420,832.81</u>	<u>100.00</u>	<u>155,495,696.39</u>	<u>-</u>	<u>398,544,464.32</u>	<u>100.00</u>	<u>185,547,357.79</u>	<u>-</u>

Unit: RMB

Note\*: This category included accounts receivable having been individually assessed but not impaired

The Company did not have any collateral for the above accounts receivable with provision for bad and doubtful debt.

Except for those denominated by functional currency, accounts receivable included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
USD	403,195.00	6.0969	2,458,239.58	301,294.10	6.2855	1,893,784.06

#### (4) As at the end of the year, there was no individually significant accounts receivable assessed individually for bad and doubtful debts.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 1. Accounts receivable (Continued)

(5) Individually not significant accounts receivable but with individual bad debt provision as at the end of the year:

Unit: RMB

Type	Carrying amount	Provision for bad and doubtful debts	Proportion	Reasons for making provision
Accounts receivable	2,525,000.00	–	–	Under individual assessment method, holding collateral and no need to make provision

(6) Accounts receivables provided for bad debt using ageing analysis method:

Unit: RMB

Ageing	2013			2012		
	Book balance Amount	Proportion (%)	Provision for bad and doubtful debts	Book balance Amount	Proportion (%)	Provision for bad and doubtful debts
Within one year	280,613,354.63	58.45	14,030,667.73	131,741,073.92	33.43	6,501,908.41
1-2 years	55,564,742.51	11.57	16,669,422.75	73,253,832.15	18.59	21,976,149.65
2-3 years	34,123,038.26	7.11	20,473,822.96	68,656,121.72	17.42	42,601,673.03
Over three years	109,812,403.10	22.87	104,321,782.95	120,467,507.78	30.56	114,467,626.70
Total	<u>480,113,538.50</u>	<u>100.00</u>	<u>155,495,696.39</u>	<u>394,118,535.57</u>	<u>100.00</u>	<u>185,547,357.79</u>

(7) Reversal of provision for bad and doubtful debts for the year

Set out below are the accounts receivable for which 95% or more of provision for bad and doubtful debts was made in the prior years but the full amount or over 95% of which was recovered during the year.

Accounts receivable	Cause for recovery	Reason for making provision for bad and doubtful debts	Accumulated bad and doubtful debts provision before recovery	Amount of bad and doubtful debts provision written back
Accounts receivable (28 customers)	Proactive negotiation facilitating collection of the amount	Provision for bad and doubtful debts in groups with an ageing of over 3 years	16,253,354.68	16,157,065.53
Accounts receivable (7 customers)	Paid in kind in lieu of cash	Provision for bad and doubtful debts in groups with an ageing of over 3 years	4,183,743.10	4,183,743.10
Total			<u>20,437,097.78</u>	<u>20,340,808.63</u>



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 1. Accounts receivable (Continued)

(8) The writing-off of the actual accounts receivable incurred during the year.

Accounts receivable	Amount written off	Cause for writing-off	Whether incurred in relation to connected transactions
Trade receivables (1 customer)	1,205,500.00	Need not to pay the balance according to the final judgment	No
Trade receivables (20 customers)	4,095,554.97	Agreement was reached to waive part of the accounts receivable	No
Total	<u>5,301,054.97</u>		

(9) Amounts of top five accounts receivable

Ranking	Relationship with the Company	Amount	Ageing	Unit: RMB Percentage to total accounts receivable (%)
1st	Third party	39,015,259.40	Within one year	8.00
2nd	Third party	18,270,283.50	Within one year	3.75
3rd	Third party	14,597,595.99	Within one year	2.99
4th	Third party	13,620,603.14	Within one year	2.79
5th	Third party	<u>10,668,000.00</u>	Over one year	<u>2.19</u>
Total		<u>96,171,742.03</u>		<u>19.72</u>

As names of third party customers involve the business secret of the Company, we did not disclose the specific names of the customers.

(10) In the above balances, there were no accounts receivable due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(11) Accounts receivable from related parties

Name of the related party	Note	Relationship with the Company	Amount	Unit: RMB Percentage to total accounts receivable (%)
Kunming TOS	VI. 6	Jointly controlled enterprise	4,538,294.31	0.93
Changsha Ser	VI. 6	Subsidiary	<u>244,000.00</u>	<u>0.05</u>
Total			<u>4,782,294.31</u>	<u>0.98</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 1. Accounts receivable (Continued)

(12) Derecognition of accounts receivables upon transfer of such receivables

Unit: RMB

Counter party	Transaction	Balance of transferred accounts receivable	Accumulated provision for bad and doubtful debts before transfer	Net book value of transferred accounts receivable	Transfer price	Gains on derecognition of accounts receivable
Transferee 1	Sale of accounts receivable due from 23 customers	11,357,076.92	10,737,223.07	619,853.85	7,700,000.00	7,080,146.15
Transferee 2	Transfer of accounts receivable due from 1 customer	2,145,000.00	2,037,750.00	107,250.00	2,145,000.00	2,037,750.00
Transferee 3	Transfer of accounts receivable due from 1 customer	2,470,000.00	2,346,500.00	123,500.00	2,470,000.00	2,346,500.00
Transferee 4	Transfer of accounts receivable due from 2 customer	2,006,500.00	1,333,400.00	673,100.00	2,006,500.00	1,333,400.00
Transferee 5	Transfer of accounts receivable due from 1 customer	1,568,000.00	681,000.00	887,000.00	1,300,000.00	413,000.00
Transferee 6	Transfer of accounts receivable due from 1 customer	1,055,000.00	1,002,250.00	52,750.00	1,055,000.00	1,002,250.00
Transferee 7	Transfer of accounts receivable due from 1 customer	761,000.00	722,950.00	38,050.00	380,500.00	342,450.00
	Total	<u>21,362,576.92</u>	<u>18,861,073.07</u>	<u>2,501,503.85</u>	<u>17,057,000.00</u>	<u>14,555,496.15</u>

In order to expedite the recovery of funds to ease the cash flow pressure on the Company, the Company entered into accounts receivable transfer agreements with each of seven third parties in December 2013. Pursuant to these agreements, the Company transferred a few or single accounts receivable to the corresponding transferees. The agreed transfer price was equal to the original book value or 50%-85% of the original book value of these accounts receivable. Please see the above table for the original book value, net book value and transfer price of the accounts receivable in the transfer transactions. None of the seven transferees is a related party of the Company or the Group, or holds more than 5% (including 5%) of the Company's shares carrying voting rights. As the names of the transferees involve trade secrets of the Group, the Group did not disclose their specific names.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 2. Other Receivables

(1) Analysis of other receivables by the type of customers:

Type of customers	2013	Unit: RMB
		2012
Third parties	8,649,446.10	15,620,182.68
Related parties	9,435,488.73	7,591,194.33
Sub-total	18,084,934.83	23,211,377.01
Less: provision for bad and doubtful debts	<u>2,394,670.06</u>	<u>4,248,775.21</u>
Total	<u>15,690,264.77</u>	<u>18,962,601.80</u>

(2) Ageing analysis of other receivables:

Ageing	2013	Unit: RMB
		2012
Within one year (including one year)	8,326,463.10	12,054,246.27
1-2 years (including two years)	1,220,328.75	4,246,989.15
2-3 years (including three years)	2,470,899.83	3,268,260.68
Over three years	6,067,243.15	3,641,880.91
Sub-total	18,084,934.83	23,211,377.01
Less: provision for bad and doubtful debts	<u>2,394,670.06</u>	<u>4,248,775.21</u>
Total	<u>15,690,264.77</u>	<u>18,962,601.80</u>

The ageing is calculated from the date other receivables are recognized.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 2. Other Receivables (Continued)

(3) Analysis of other receivables by category:

Unit: RMB

Type	Note	2013				2012			
		Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	(4)	-	-	-	-	-	-	-	-
Collectively assessed for impairment*									
Group 1	(5)	8,649,446.10	47.83	2,394,670.06	27.69	15,620,182.68	67.30	4,248,775.21	27.20
Group 2	(10)	9,435,488.73	52.17	-	-	7,591,194.33	32.70	-	-
Sub-total of groups		18,084,934.83	100.00	2,394,670.06	13.24	23,211,377.01	100.00	4,248,775.21	18.30
Total		18,084,934.83	100.00	2,394,670.06	-	23,211,377.01	100.00	4,248,775.21	-

Note\*: This category included other receivables having been individually assessed but not impaired.

The Company did not have any collateral for the above other receivables with provision for bad and doubtful debt.

Except for those denominated by functional currency, other receivables included the following amounts denominated by other currencies.

Currency	2013			2012		
	The amount of foreign currency	Exchange rate	RMB equivalent	The amount of foreign currency	Exchange rate	RMB equivalent
HKD	2,025.87	0.7862	1,592.74	-	-	-

(4) As at the end of the year, there was no individually significant other receivables assessed individually for bad and doubtful debts.

(5) Other receivables provided for bad debt using ageing analysis method:

Unit: RMB

Ageing	2013			2012		
	Carrying amount		Provision for bad and doubtful debts	Carrying amount		Provision for bad and doubtful debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within one year	6,482,168.70	74.94	324,208.44	11,027,548.68	70.60	620,840.87
1-2 years	193,631.16	2.24	96,815.38	2,087,071.85	13.36	1,122,372.19
2-3 years	310,982.53	3.60	310,982.53	1,121,452.70	7.18	1,121,452.70
Over three years	1,662,663.71	19.22	1,662,663.71	1,384,109.45	8.86	1,384,109.45
Total	8,649,446.10	100.00	2,394,670.06	15,620,182.68	100.00	4,248,775.21

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

### (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

#### 2. Other Receivables (Continued)

(6) There was no significant provision for bad and doubtful debt to be reversed or collected for the other receivables for the year.

(7) There was no write-off for the other receivables for the year.

(8) Amounts of top five other receivables

Name	Relationship with the Company	Amount	Ageing	Unit: RMB Percentage to total other receivables (%)
Xi'an Ser	Subsidiary	7,660,306.76	Over one year	42.35
Kunming TOS	Jointly controlled enterprise	1,775,181.97	Over one year	9.82
Lanzhou LS Group Co., Ltd.	Third party	480,000.00	Within one year	2.65
Sichuan Nanchong Huaxin Construction Engineering Ltd. Kunming Branch	Third party	425,418.30	Within one year	2.35
Baotou Iron & Steel Group Mechanical Equipment Manufacture Co., Ltd.	Third party	400,000.00	Within one year	2.21
Total		<u>10,740,907.03</u>		<u>59.38</u>

(9) In the above balances, there were no other receivables due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights.

(10) Other receivables from related parties

Name	Note	Relationship with the Company	Amount	Unit: RMB Percentage to total other receivables (%)
Xi'an Ser	VI. 6	Subsidiary	7,660,306.76	42.35
Kunming TOS	VI. 6	Jointly controlled enterprise	1,775,181.97	9.82
Total			<u>9,435,488.73</u>	<u>52.17</u>

As at 31st December 2013, the Company conducted individual assessment on other receivables due from related parties and considered that there was no need to make provisions for bad and doubtful debts.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 3. Long-term equity investments

(1) Long-term equity investments by type:

Item	Unit: RMB	
	2013	2012
Investment in subsidiaries	24,693,265.85	24,693,265.85
Investment in jointly controlled enterprises	44,449,919.40	43,631,371.02
Investment in associated companies	13,440,673.03	14,348,530.66
Other long-term equity investments	2,000,000.00	2,000,000.00
Sub-total	84,583,858.28	84,673,167.53
Less: impairment provision	2,000,000.00	2,000,000.00
Total	<u>82,583,858.28</u>	<u>82,673,167.53</u>

(2) Analysis of changes of long-term equity investment for the year:

Invested company	Investment cost	Opening balance	Increase/decrease	Closing balance	Percentage of shareholding in the invested company (%)(A)	Percentage of voting rights in the invested company (%)(B)	Explanation of difference between (A) and (B)	Impairment provision	Impairment provision for the year	Cash dividend for the year	Unit: RMB
<b>Under equity method:</b>											
<b>jointly controlled enterprises</b>											
Kunming TOS	24,739,533.99	43,631,371.02	818,548.38	44,449,919.40	50.00	50.00	-	-	-	678,688.42	
<b>Under equity method:</b>											
<b>associated company</b>											
Xi'an Ruite	14,000,000.00	14,348,530.66	(907,857.63)	13,440,673.03	23.34	23.34	-	-	-	-	
<b>Under cost method: subsidiary</b>											
Xi'an Ser	21,693,265.85	21,693,265.85	-	21,693,265.85	45.00	60.00	Note	-	-	-	
General Machine	3,000,000.00	3,000,000.00	-	3,000,000.00	100.00	100.00	-	-	-	-	
Sub-total	24,693,265.85	24,693,265.85	-	24,693,265.85	-	-	-	-	-	-	
<b>Under cost method:</b>											
<b>other long-term equity investment</b>											
Yunnan Cheng Jiang Copper Products Plant	2,000,000.00	2,000,000.00	-	2,000,000.00	40.00	40.00	-	2,000,000.00	-	-	
Total	<u>65,432,799.84</u>	<u>84,673,167.53</u>	<u>(89,309.25)</u>	<u>84,583,858.28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000.00</u>	<u>-</u>	<u>678,688.42</u>	

Note: the percentage of voting rights of Company in the above companies is determined by the percentage to total voting rights in the board of directors of the above companies. The Company can have control to the above companies' finance and operating decisions. Therefore, the Company treated these companies as subsidiaries and adopts cost method for accounting.

(3) Information of major jointly controlled enterprises and associated companies:

Please refer to note V. 8(3) for information of major jointly controlled enterprise and associated companies.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 4. Debt restructuring in respect of accounts payable

In order to reduce the operation burden of the Company, the Company negotiated with some suppliers from the second half of 2013, requesting the suppliers to give discount on the accounts payable for previous purchases. In the end, the Company entered into debt restructuring agreements with each of 52 suppliers. Pursuant to the provisions of these agreements, the suppliers agreed to accept certain reductions on the accounts payable owed by the Company. The reduced amount generally represented 10% – 35% of the accounts payable before discounting. The suppliers committed to giving up ownership of the reduced amounts and will never claim the rights to the reduced amounts. None of the suppliers which entered into debt restructuring agreements is a related party of the Company or the Group, or holds more than 5% (including 5%) of the Company's shares carrying voting rights.

The total original book value of the accounts payable mentioned in the debt restructuring agreements is RMB107,770,137.20 (see the table below). Pursuant to the above agreements, the total balance of accounts payable owed by the Company after adjustments was RMB86,297,612.78, thus the Company reduced the accounts payable in an amount of RMB21,472,524.42, and recognized the gain in the non-operating income (see note V. 42(3)).

Name of supplier	Amount before debt restructure	Amount after debt restructure	The amount of discount
Cangzhou Mingyuan Machinery Manufacturing Ltd.	13,489,152.46	10,184,601.65	3,304,550.81
Kunming Zechen Technology Co., Ltd.	5,844,835.89	4,091,385.12	1,753,450.77
Kunming Chengliang Xin Trade Co., Ltd.	3,658,116.53	2,560,681.57	1,097,434.96
Kunming Yufeng Trade Co., Ltd.	3,368,722.31	2,358,105.62	1,010,616.69
Kunming Changqin Trade Co., Ltd.	5,014,259.69	4,011,407.75	1,002,851.94
Other 47 suppliers	<u>76,395,050.32</u>	<u>63,091,431.07</u>	<u>13,303,619.25</u>
Total	<u>107,770,137.20</u>	<u>86,297,612.78</u>	<u>21,472,524.42</u>

### 5. Operating income and operating costs

(1) Operating income and operating costs

Item	2013	Unit: RMB 2012
Operating income	904,415,910.30	893,723,388.17
Including: Income from sales of products	885,634,063.16	878,417,939.16
Income from rendering services	18,781,847.14	15,305,449.01
Other operating income	<u>12,163,420.32</u>	<u>4,599,825.16</u>
Total operating income	<u>916,579,330.62</u>	<u>898,323,213.33</u>
Operating costs	<u>729,393,037.66</u>	<u>723,846,145.54</u>

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 5. Operating income and operating costs (Continued)

(2) Operating income (by business line)

Business	2013		2012	
	Operating income	Operating costs	Operating income	Operating costs
Sales and service of boring machines	<u>916,579,330.62</u>	<u>729,393,037.66</u>	<u>898,323,213.33</u>	<u>723,846,145.54</u>

Unit: RMB

(3) Operating income from the top five customers in 2013

Ranking	Operating income	Percentage to total operating income (%)
1st	33,346,375.53	3.64
2nd	29,709,743.58	3.24
3rd	29,256,222.24	3.19
4th	23,333,333.34	2.55
5th	<u>19,836,572.67</u>	<u>2.16</u>
Total	<u>135,482,247.36</u>	<u>14.78</u>

Unit: RMB

The Company has not disclosed the specific names of the top 5 customers for the year 2013, which involved commercial secret of the Group.

### 6. Investment income

Item	Unit: RMB	
	2013	2012
Income from long-term equity investment under equity method	589,379.17	1,055,320.73

The amount of long-term equity investment income under equity method:

Invested company	Unit: RMB	
	2013	2012
Kunming TOS	1,497,236.80	1,131,147.36
Xi'an Ruite	<u>(907,857.63)</u>	<u>(75,826.63)</u>
Total	<u>589,379.17</u>	<u>1,055,320.73</u>



# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (X). NOTES TO PRINCIPLE ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

(Continued)

### 7. Related information of cash flow statement

(1) Supplementary information of the cash flow statement

Supplemental information	2013	Unit: RMB 2012
<b>1. Reconciliation of net profit ("()") for net loss to cash flows from operating activities:</b>		
Net profit ("()") for net loss	5,690,167.34	(62,585,333.32)
Add: Provision for impairment of assets ("()") for reversal	(5,371,878.70)	31,778,078.70
Depreciation of fixed assets	38,815,567.88	38,219,852.02
Amortization of intangible assets	3,035,967.78	2,063,049.17
Amortization of long-term deferred expenses	818,964.62	426,098.88
Amortization of deferred income	(1,935,300.00)	(205,300.00)
Loss on disposal of fixed assets ("()") for gain	(390,543.99)	494,930.32
Financial expenses ("()") for incomes	4,295,000.71	(182,576.38)
Investment gain	(589,379.17)	(1,055,320.73)
Increase in deferred tax assets	(970,880.80)	(15,186,488.12)
Gain on debt restructuring of accounts payable	(21,472,524.42)	-
Decrease in inventories ("()") for increase	216,597,004.38	(18,396,429.41)
Increase in operating receivable	(292,145,158.65)	(119,453,867.27)
Increase in operating payable("()") for decrease	(12,142,223.64)	154,493,051.21
	<u>(65,765,216.66)</u>	<u>10,409,745.07</u>
<b>2. Net movements in cash and cash equivalents:</b>		
Closing balance of cash	131,661,936.74	71,927,250.50
Less: Opening balance of cash	<u>71,927,250.50</u>	<u>143,087,572.52</u>
	<u>59,734,686.24</u>	<u>(71,160,322.02)</u>

(2) Composition of cash and cash equivalents

Item	2013	Unit: RMB 2012
1. Cash	131,661,936.74	71,927,250.50
Including: cash on hand	618,407.91	295,446.95
bank deposits available on demand	<u>131,043,528.83</u>	<u>71,631,803.55</u>

Note: the above disclosed cash do not include the amounts of monetary funds with restricted usage and short-term investments.

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in RMB unless otherwise specified)

## (XI). NET CURRENT ASSETS

Item	Unit: RMB			
	2013 The Group	2012 The Group	2013 The Company	2012 The Company
Current assets	1,697,860,498.32	1,535,239,783.32	1,360,663,648.26	1,222,382,929.57
Less: current liabilities	<u>1,286,039,072.01</u>	<u>1,091,593,503.93</u>	<u>978,266,545.42</u>	<u>797,303,103.68</u>
Net current assets	<u>411,821,426.31</u>	<u>443,646,279.39</u>	<u>382,397,102.84</u>	<u>425,079,825.89</u>

## (XII). TOTAL ASSETS LESS CURRENT LIABILITIES

Item	Unit: RMB			
	2013 The Group	2012 The Group	2013 The Company	2012 The Company
Total assets	2,793,270,204.96	2,548,752,225.10	2,414,670,110.06	2,187,269,380.31
Less: current liabilities	<u>1,286,039,072.01</u>	<u>1,091,593,503.93</u>	<u>978,266,545.42</u>	<u>797,303,103.68</u>
Total assets less current liabilities	<u>1,507,231,132.95</u>	<u>1,457,158,721.17</u>	<u>1,436,403,564.64</u>	<u>1,389,966,276.63</u>

# SUPPLEMENTAL INFORMATION

## 1. EXTRAORDINARY GAINS AND LOSSES FOR THE YEAR 2013

<b>Item</b>	<i>Unit: RMB</i> <b>Amount</b>
Disposal of non-current assets	1,123,606.41
Government grants recognized through profit and loss (excluding those having close relationship with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)	4,222,272.70
Gain on debt restructuring of account payable	21,472,524.42
Gain on transfer of accounts receivable	14,555,496.15
Other non-operating income and expenses besides items above	(2,630,478.37)
Effect of income tax	(5,811,513.20)
Effect of minority interests (after tax)	(397,567.81)
Total	<u>32,534,340.30</u>

## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

The return on net assets and earnings per share prepared in accordance with No.9 of Rules for the Compilation and Submission of Information Disclosure by Public Offering Companies issued by China Securities Regulatory Commission (2010 revised) and regulations of relevant accounting standards are as follows:

<b>Earnings during the reporting period</b>	<b>Weighted average of return on net assets (%)</b>	<b>Earnings per share</b>	
		<b>Basic earnings per share</b>	<b>Diluted earnings per share</b>
Net earnings attributable to the ordinary shareholders of the Company	0.56	0.0140	0.0140
Net earnings attributable to the ordinary shareholders of the Company excluding extraordinary gains and losses	(1.90)	(0.0473)	(0.0473)

## DOCUMENTS AVAILABLE FOR INSPECTION

- (I) Financial statements signed and stamped by legal representative and financial officer of the Company
- (II) Original copy of Auditors' Report bearing the signatures and seals of the Accounting Firm and Certified Public Accountants
- (III) Original copy of all documents and the drafts of announcements as disclosed in newspapers as specified by the CSRC during the reporting period
- (IV) 2013 Annual Report
- (V) Written confirmation for the 2013 Annual Report by directors and senior management officers
- (VI) Written approval by supervisory committee for 2013 Annual Report prepared by the Board

**Shenji Group Kunming Machine Tool Company Limited**  
**Wang Xing**  
*Chairman*  
28th March 2014

*ENCL:* Written confirmation by directors and senior management officers for the 2013 Annual Report

## DECLARATION

The board of directors (the "Board"), directors and senior management officers of the Company warrant that there are no false representations, misleading statements and material omissions in the 2013 annual report of the Company, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

### Signature of declaratory persons:

#### Directors:

Wang Xing	Zhang Xiaoyi	Zhao Tao	Guan Xin
Gao Minghui	Ye Nong	Zhang Zeshun	Zhou Donghong
Yang Xiongsheng	Chen Fusheng	Yu Chengting	Tang Chunsheng

#### Senior management officers:

Chang Baoqiang	Zhu Xiang	Zhou Guoxing	Xu Kunping
Jin Xiaofeng	Luo Tao		

Board of Director  
**Shenji Group Kunming Machine Tool Company Limited**  
28th March 2014

*ENCL:* Written approval by supervisory committee for 2013 Annual Report prepared by the Board

# DOCUMENTS AVAILABLE FOR INSPECTION

## OPINIONS OF THE SUPERVISORY COMMITTEE

Regarding the 2013 Annual Report (hereafter as the “Annual Report”) prepared by the Board, we have the following opinions:

1. The preparation of the Annual Report and the auditing procedures are in strict compliance with laws and regulations, the Articles of Association and rules of the Company’s internal management system;
2. The content and format of the Annual Report were in strict compliance with the regulations of the China Securities Regulatory Commission and Shanghai Stock Exchange. The information included in the Annual Report can truly reflect in all respects the Company’s operating management and financial status and other matters of the year;
3. Before providing the above opinions, we did not discover any person involved in the preparation of the Annual Report nor has any auditing personnel violated the rule of confidentiality.

### Supervisors:

Shao Li

Fan Hong

Cai Zhemin

Qin Jianzhong

Supervisory Committee  
**Shenji Group Kunming Machine Tool Company Limited**  
28th March 2014