第一拖拉机股份有限公司

# FIRST TRACTOR COMPANY LIMITED

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

(Stock Code : 0038)

# 2012 ANNUAL REPORT

# IMPORTANT NOTICE

I. The board of directors (the "**Board**") and board of supervisors (the "**Board of Supervisors**") of First Tractor Company Limited (the "**Company**"), and its directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management confirm that there are no false information, misleading statements or material omissions contained in this annual report (the "**Annual Report**"), and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents therein.

II. All directors of the Company attended the Board meeting convened to consider the Annual Report.

III. Baker Tilly Hong Kong Limited issued the standard unqualified audit report to the Company.

IV. Mr. Zhao Yanshui (the Chairman of the Company), Mr. Yao Weidong (Person in charge of the accounting function) and Ms. Zhou Juan (Person in charge of the Accounting Department) have confirmed the truthfulness and completeness of the financial statements in the Annual Report.

V. Proposals of profit distribution or capitalisation from capital reserves of the Company for the reporting period (the "**Reporting Period**") as considered by the Board:

We propose a profit distribution plan for 2012 as follows: a cash dividend of RMB1.00 (tax inclusive) for every ten shares on the basis of a total share capital of 995,900,000 shares as at 31 December 2012. The Company does not propose any capitalisation from capital reserves.

VI. Forward-looking statements such as the future development strategy and business plan contained in this report do not constitute any substantial commitment to investors by the Company. Investors are advised to pay attention to any investment risks.

VII. Any misappropriation of the Company's funds (not in the ordinary course of business of the Company) by the controlling shareholders or its associates?

No

VIII. Any external guarantees provided by the Company in violation of any established decision-making procedures?

No

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# MAJOR EVENTS IN 2012

**January** The 2012 first extraordinary general meeting of the Company approved the amendments to the Articles of Association, specifying that the Company adopts contsistent and stable profit distribution policy and the annual profits distributed by the Company by way of cash shall not be less than 25% of the profit available for distribution for the year (the lower of those in the financial statements under the PRC accounting standards and the international accounting standards).

**February** The Company announced the 2011 annual results.

**May** "Dongfanghong-branded Tractor" was listed in the Top Ten Cultural Symbols of Luoyang City.

**August**

- On 8 August, the A shares of the Company was listed on the Shanghai Stock Exchange.
- The Company's pilot trial base (中試基地) was put into use.
- The Company announced its 2012 interim results.

The A shares of the Company was listed on 8 August 2012


The globally advanced and
domestically first-class trial production base was put into use

# MAJOR EVENTS IN 2012 *(continued)*

**September** The Company launched the "Dongfanghong-branded" powershift transmission tractors in a mass manner.

**October** The Company announced its 2012 third quarterly report.

**November**

- The Company was granted the "Governor Quality Award (省長質量獎)", the highest honor of quality in Henan Province.
- The Company won the Golden Bauhinia Award — "Listed Company with the Highest Brand Value (最具品牌價值上市公司)" granted by Ta Kung Pao.
- The one millionth LR-series diesel engines rolled off the production line at the Company's subsidiary YTO (Luoyang) Diesel Engine Co., Ltd.

**December**

- The re-election of the fifth session of the Board and the fifth session of the Board of Supervisors was completed.
- The Company completed the acquisitions of all the equity interests in YTO Axle and YTO Flag.

The Company launched the powershift transmission tractors


The Company won the Golden Bauhinia Award
— "Listed Company with the Highest Brand Value"

# DEFINITIONS AND SIGNIFICANT RISKS WARNING

## 1. DEFINITIONS

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

| | | |
|---|---|---|
| Company | means | First Tractor Company Limited (第一拖拉機股份有限公司) |
| Group | means | First Tractor Company Limited and its controlled subsidiaries |
| Controlled subsidiary | means | A company held as to more than 50% by the Company |
| Subsidiary | means | A subsidiary as defined under the Listing Rules |
| YTO | means | YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company |
| Sinomach | means | China National Machinery Industry Corporation (中國機械工業集團有限公司) |
| YTO Flag | means | YTO (Luoyang) Flag Auto-Body Company Limited (一拖(洛陽)福萊格車身有限公司) |
| YTO Axle | means | YTO (Luoyang) Drive Axle Company Limited (一拖(洛陽)車橋有限公司) |
| Tractors Research Company | means | Luoyang Tractors Research Institute Co., Ltd. (洛陽拖拉機研究所有限公司), a controlled subsidiary of the Company |
| YTO International | means | YTO International Ltd. (一拖國際經濟貿易有限公司), a wholly owned subsidiary of the Company |
| Jiangyan Power | means | YTO (Jiangyan) Power Machinery Co., Ltd (一拖(姜堰)動力機械有限公司), a controlled subsidiary of the Company |
| YTO Finance | means | YTO Finance Company Limited (中國一拖集團財務有限責任公司), a controlled subsidiary of the Company |
| YTO France | means | YTO France SAS, a wholly owned subsidiary of the Company |
| YTO Diesel | means | YTO (Luoyang) Diesel Engine Co., Ltd (一拖(洛陽)柴油機有限公司), a controlled subsidiary of the Company |
| YTO Shentong | means | YTO (Luoyang) Shentong Construction Machinery Co., Ltd (一拖(洛陽)神通工程機械有限公司), a wholly owned subsidiary of the Company |
| BCM | means | Brilliance China Machinery Holdings Limited, a controlled subsidiary of the Company |
| YTO Shunxing | means | YTO Shunxing (Luoyang) Spare Parts Co., Ltd (一拖(洛陽)順興零部件有限責任公司), a wholly-owned subsidiary of the Company |
| YTO (Xinjiang) Machinery | means | YTO (Xinjiang) Machinery Co., Ltd (一拖(新疆)東方紅裝備機械有限公司), a wholly owned subsidiary of the Company |
| YTO Power Machinery | means | YTO (Luoyang) Power Machinery Co., Ltd (一拖(洛陽)動力機械有限公司), a controlled subsidiary of the Company |
| YTO Injection Pump | means | YTO (Luoyang) Fuel Injection Pump Co., Ltd (一拖(洛陽)燃油噴射有限公司), a controlled subsidiary of the Company |

# DEFINITIONS AND SIGNIFICANT RISKS WARNING *(continued)*

| | | |
|---|---|---|
| YTO Foundry | means | YTO (Luoyang) Foundry Company Limited (一拖(洛陽)鑄造有限公司) |
| Nanyang Xiangrui Company | means | Nanyang Xiangrui Agricultural Machinery Co., Ltd (南陽祥瑞農業裝備有限公司) |
| YTO Kintra | means | YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd (一拖(洛陽)開創裝備科技有限公司), a subsidiary of YTO |
| Liaoning Shunxing Company | means | Liaoning Shunxing Combustion Engine Crankshaft Company Limited (遼寧順興重型內燃機曲軸有限公司) |
| CBRC | means | China Banking Regulatory Commission |
| CSRC | means | China Securities Regulatory Commission |
| SASAC | means | State-owned Assets Supervision and Administration Commission of the State Council |
| Prospectus | means | the "prospectus in connection with the initial public offering of A Shares of First Tractor Company Limited" (《第一拖拉機股份有限公司首次公開發行A股股票説明書》) prepared under relevant laws and regulations for the initial public offering of A Shares |
| Shanghai Stock Exchange | means | the Shanghai Stock Exchange |
| Stock Exchange | means | the Stock Exchange of Hong Kong Limited |
| Listing Rules | means | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| A Share | means | ordinary shares as approved by the CSRC which are issued to domestic investors and qualified foreign investors, traded on domestic stock exchanges, denominated, subscribed for and traded in RMB |
| H Share | means | ordinary shares as approved by the CSRC which are issued to foreign investors, and listed with the approval of the Stock Exchange, denominated in RMB, subscribed for and traded in Hong Kong dollars. |
| agricultural machinery | means | various machinery used in the crop farming and animal husbandry, and the primary processing of agricultural and animal products |
| power machinery | means | diesel engine and fuel injection pump products, etc. |
| hi-powered wheeled tractor | means | wheeled tractor with a power of 70 horsepower or above |
| mid-powered wheeled tractor | means | wheeled tractor with a power of 25 (inclusive) to 70 horsepower |
| low-powered wheeled tractor | means | wheeled tractor with a power of less than 25 horsepower |
| diesel engine | means | internal combustion engines that use diesel as fuel |
| non-road diesel engine | means | diesel engines used for non-road machinery such as construction machinery and agricultural machinery |
| forklift truck | means | various wheeled carrying vehicles used for loading, unloading, stacking and short-distance conveyance of packed palletized goods |

# DEFINITIONS AND SIGNIFICANT RISKS WARNING *(continued)*

## II. SIGNIFICANT RISKS WARNING

### (I) Risks relating to fluctuations in raw materials prices

The main raw materials necessary for the Company's production of products and parts and components include quality steel, plates, steel scrap, pig iron and rubber, and certain parts and components are purchased from external suppliers. In 2012, raw materials and parts and components purchased by the Company accounted for 90.37% of its total operating costs. Any significant price fluctuations in steel products and billets and rubbers in the future will have impact on the gross profit of the Company, as well as accounting items such as inventory impairment loss and accordingly the profit before tax of the Company.

### (II) Risks relating to changes in national policy on subsidies for agricultural machinery purchase

As the People's Republic of China (the "**PRC**" or "**China**") increases its subsidies for large and medium agricultural machinery, the Company has more product models and sales regions to be covered in the subsidies directory. As the corresponding amount of subsidies to the agricultural machinery of the Company gradually increases, subsidies for agricultural machinery account for a higher percentage of the Company's revenue. If China makes material adjustments to the operation procedures in the granting of the subsidies, it may lengthen the revenue collection time and increase the amount of accounts receivables.

### (III) Risks relating to the guarantee liabilities in respect of finance lease and buyer's credit operations

In order to facilitate higher sales of its agricultural machinery such as hi-powered and mid-powered tractors under the brand of Dongfanghong and mining trucks, and ease the capital shortages of the dealers and purchasers, the Company co-operate with financial institutions to provide finance lease and buyer's credit, for which the Company provide guarantees. Such sales model promotes the sales of the Company's products and lowers the Company's account receivables, which, like other normal credit sales, is exposed to the default risks on the part of the end users and causes the Company to bear liabilities under guarantees.

# COMPANY PROFILE

## I. INFORMATION OF THE COMPANY

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

## II. CONTACT PERSON AND METHODS

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

## III. BASIC INFORMATION

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

## IV. INFORMATION DISCLOSURE AND THE PLACE FOR DOCUMENTS INSPECTION

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

COMPANY PROFILE *(continued)*

## V. BASIC INFORMATION OF THE COMPANY'S SHARES

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

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

### (I) Basic information

| | |
|---|---|
| Registration date | 28 December 1998 |
| Registration authority | Henan Administrative Bureau for Industry and Commerce, PRC |
| Corporate legal person business license registration number | 410000400013049 |
| Tax registration number | 410305170005381 |
| Organization code | 17000538 |

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

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

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

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

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

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

## VII. OTHER RELATED INFORMATION

| | | |
|---|---|---|
| Auditors of the Company (PRC) | Name | Baker Tilly China Certified Public Accountants |
| | Office address | 2/F, Block B, Huatong Building,19 Chegongzhuang West Road Yi, Haidian District, Beijing, PRC |
| | Names of signing accountant | Qiu Jingzhi（邱靖之）, Zhang Jianguo（張建國） |
| Auditors of the Company (Hong Kong) | Name | Baker Tilly Hong Kong Limited |
| | Office address | 2/F, 625 King's Road, North Point, Hong Kong |
| | Name of signing accountant | Andrew David Ross（羅安狄） |
| Sponsor providing on-going supervision and guidance during the Reporting Period | Name | CITIC Securities Company Limited |
| | Office address | North Tower, Excellence Times Square II, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, PRC |
| | Name of the signing sponsor representatives | Yu Hui（余暉）, Yu Junli（于軍驪） |
| | On-going supervision period | 8 August 2012 to 31 December 2014 |

# ACCOUNTING DATA AND FINANCIAL SUMMARY

## I. KEY FINANCIAL DATA SUMMARY

During the Reporting Period, to improve the industrial chain and reduce connected transactions, the Company acquired 100% equity interest in YTO Flag and YTO Axle from YTO, the controlling shareholder of Company, and YTO Kintra, a controlled subsidiary of YTO, respectively. The aforementioned equity acquisition transactions constitute business combination under common control and restatements were made to the comparative figures of the consolidated financial statements. The following analysis of the 2011 financial figures are restated figures.

### (I) Consolidated results

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | | |
| Operating revenue | **11,317,998** | 11,702,673 | 10,265,832 | 9,004,986 | 7,933,721 |
| Profit before income tax | **485,181** | 599,229 | 646,142 | 367,196 | 90,407 |
| Income tax expense | **(70,701)** | (84,937) | (84,093) | (85,284) | (9,528) |
| Profit for the year | **414,480** | 514,292 | 562,049 | 281,912 | 80,879 |
| Profit attributable to: | | | | | |
| Owners of the Company | **349,058** | 440,051 | 542,670 | 248,551 | 68,505 |
| Non-controlling interests | **65,422** | 74,241 | 19,379 | 33,361 | 12,374 |

*Note 1:* "Restated": As the acquisitions of YTO Flag and YTO Axle in 2012 constitute business combination under common control, retrospective adjustments and restatements were made to the financial data in the consolidated results of 2011 in accordance with the relevant regulations.

*Note 2:* Since YTO Axle was newly established in 2012, the restated figures have consolidated the relevant data of YTO Flag only.

# ACCOUNTING DATA AND FINANCIAL SUMMARY *(continued)*

## (II) Consolidated assets, liabilities and equity

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | (Restated) | | |
| Total assets | **11,079,402** | 9,772,934 | 8,839,660 | 6,187,416 | 5,625,869 |
| Total liabilities | **6,187,518** | 5,820,466 | 5,143,440 | 3,112,877 | 2,847,090 |
| Total net assets | **4,891,884** | 3,952,468 | 3,696,220 | 3,074,539 | 2,778,779 |
| Equity attributable to owners of the Company | **4,366,396** | 3,414,569 | 3,230,113 | 2,844,608 | 2,557,456 |
| Equity attributable to non-controlling interests | **525,488** | 537,899 | 466,107 | 229,931 | 221,323 |

## (III) Indicators of financial ratio

| **Major financial indicators** | **Basis of calculation** | **2012** | 2011 (Restated) | 2010 (Restated) |
|---|---|---|---|---|
| Gearing ratio | Total liabilities / total assets x 100% | **55.8%** | 59.6% | 58.2% |
| Current ratio | Current assets / current liabilities | **1.41** | 1.20 | 1.45 |
| Quick ratio | (Current assets - inventories) / current liabilities | **1.15** | 0.98 | 1.12 |
| Debt equity ratio | Total liabilities / shareholders' equity x 100% | **141.7%** | 170.5% | 159.2% |

*Note:* Shareholders' equity excludes non-controlling interests.

# CHAIRMAN'S STATEMENT

**Dear shareholders,**

## RESULTS REVIEW

During 2012, an ongoing sluggish world economy and the decelerated growth of the domestic machinery industry increased the difficulty in business operation. After rapid and continuous growth in recent years, there is limited room for further growth of the tractor industry. Given the impact of the adjustment to the subsidies policy for agricultural machineries and other factors, the overall sales declined to some degree. Confronted with such a complex and grim business environment, the Company timely adjusted its sales tactic based on market changes and proactively pushing forward adjustment to the product mix. With steady economic operation, breakthroughs in major projects, exceptional progress in its key tasks, the Company boosted its comprehensive capabilities in dealing with changing market situations, and continuously maintained its leading position in the hi-powered and mid-powered tractors market.

During the Reporting Period, the Company constantly enhanced its capability of sustainable development by effectively pressing ahead with the construction of key research and development projects. In September 2012, the Company mass launched the powershift transmission tractors with complete proprietary intellectual property rights, which marked a significant breakthrough in the research and development and the manufacturing technology of heavy-duty wheeled tractors in the PRC. Meanwhile, our globally advanced and domestically first class pilot trial production base was put into operation. The Company considerably boosted its capability in testing the power range, projects and precision of tractors and diesel engines, which laid a foundation for the Company to consolidate its existing technological advantages and building competitive edges for the future.

During 2012, the provincial government of Henan granted the "Governor Quality Award (省長質量獎)", the highest honor of quality, to the Company. This is another award on quality received by the Company, which is great assurance on the management standards on quality, and products and services quality of the Company . Furthermore, the Company won the Golden Bauhinia Award – "Listed Company with the Highest Brand Value (最具品牌價值上市公司)" granted by Ta Kung Pao in Hong Kong, which demonstrated the recognition of the Company by the capital market and would drive the Company to strengthen its connection with the capital market and endeavor to create more value to investors.

The Company also achieved tremendously in capital operation during 2012. In August 2012, the Company completed its initial public offering of A shares which were listed on the Shanghai Stock Exchange, and became the only enterprise in the domestic agricultural machinery manufacturing industry with "A+H" listings. The A share issue would provide strong support for the Company to upgrade its products and adjust the product mix, and offer a critical capital market platform for the Company to further consolidate resources and attain its strategic development target. By the end of 2012, the Company completed the acquisitions of all the equity interests in YTO Flag and YTO Axle from YTO. Equity interest transfer in YTO Foundry was also completed in

January 2013. It would further enhance the Company's core manufacturing capability and optimize its industrial chain.

During the Reporting Period, the Company kept improving its corporate governance mechanism, and further strengthened the awareness of standardized operation and investor return. Through amendment to the articles of the association of the Company (the "**Articles of Association**"), the Company clarified the implementation of sustainable and stable profit distribution policy while taking into consideration of sustainable development of the Company and reasonable investor return. During the Reporting Period, the Board further revised and improved the Implementation Rules for the Audit Committee, the Remuneration Committee and the Nomination Committee, based on the actual condition of the Company and the requirements of the Listing Rules.

During the Reporting Period, the re-election of the Board of the Company was completed smoothly. In accordance with the operational need, the management team was replenished and adjusted by the Board. All new Directors and management members of the Company are well experienced and educated in their respective fields and also diligent and conscientious. All our management members and I are confident in leading the Company onto the track of steady development and bringing more return to our shareholders.

The fifth Board of Directors and Supervisors and the senior management members achieved outstanding operating results and made important contribution to the development of the Company. I would like to avail myself of this opportunity to express my sincere regards and gratitude to the retired Directors, Supervisors and senior management members.

## PROSPECTS

Our mission is to stay committed to provide the most valuable packaged solutions to agricultural machineries, and our vision is to become a prominent global supplier of agricultural machineries. The year of 2013 will see our unremitting efforts in achieving this target. The Chinese agricultural machinery industry has been developing rapidly for nearly a decade since 2004, while the coming ten years will still be a golden period for the transformation and upgrade of the agricultural machinery industry. As a leading company in the domestic agricultural machinery manufacturing industry, we have realized agricultural mechanization from certain procedures to the entire process, from field-operating machinery to all-round mechanization, and our agricultural machinery products have evolved from low-end ones to those with high technology content, all of which will provide us huge development opportunities. As a leader in as well as a beneficiary of industry upgrading, we will firmly grasp this opportunity for further growth amid industrial development.

# CHAIRMAN'S STATEMENT *(continued)*

2013 is not only a year of great expectations but also of challenges. The world economy is still mired in-depth correction, with complicated and capricious conditions internationally and declining demands domestically, some in-depth problems and conflicts emerge gradually. Competition in the agricultural machinery industry will also intensify. The tractor industry will enter a phase of "high-end products-focused and moderate growth (高位運行、溫和增長)", with fast rising demands for high-end products, and emphasis on adjustment of the product mix. Years of amassed advantages in respect of brand, services, R&D, manufacture and customers give us the confidence to better seize present opportunities, actively tackle various challenges, and continuously promote sustainable development of the Company, so as to bring more stable and sustained returns to our shareholders.

I would like to avail myself of this opportunity to express my sincere regards and gratitude to all shareholders and persons of all circles for their support of the Company's growth and all employees for their hard work in the previous year.

**Zhao Yanshui**
*Chairman*

27 March 2013

# REPORT OF THE DIRECTORS

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

### (I) Analysis of principal businesses

*Unit: RMB'000*

| | Revenue | | | | | Segment results | | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | | 2011(Restated) | | **Change of revenue from external customers over last year** | **2012** | 2011 | **Change over last year** |
| **By segment** | **Segment revenue** | **Revenue from external customers** | Segment revenue | Revenue from external customers | % | | (Restated) | % |
| Agricultural machinery business | **10,115,762** | **9,616,653** | 10,255,699 | 9,731,567 | –1.2% | **355,782** | 359,931 | –1.2% |
| Power machinery business | **2,004,945** | **1,224,001** | 2,211,062 | 1,470,155 | –16.7% | **89,983** | 191,227 | –52.9% |
| Other machinery business | **447,149** | **384,975** | 494,472 | 436,128 | –11.7% | **–9,989** | –6,314 | N/A |
| Financial business | **110,876** | **92,369** | 94,757 | 64,823 | 42.5% | **61,809** | 53,797 | 14.9% |
| Unallocated and eliminations | **–1,360,734** | | –1,353,317 | | | **–12,404** | 588 | |
| Total | **11,317,998** | **11,317,998** | 11,702,673 | 11,702,673 | –3.3% | **485,181** | 599,229 | –19.0% |

*Note 1:* "Restated": As the acquisitions of YTO Flag and YTO Axle in 2012 constitute business combination under common control, retrospective adjustments and restatements were made to the financial data in the consolidated results of 2011 in accordance with the relevant regulations.

*Note 2:* Since YTO Axle was newly established in 2012, the restated figures have consolidated the relevant data of YTO Flag only.

# REPORT OF THE DIRECTORS *(continued)*

**Agricultural machinery business**

Starting from 2012, affected by such factors as the adjustment to the subsidies implementation policy of China and the rise in production and operation costs of enterprises, the agricultural machinery industry has been displaying a trend of slower growth and diversified development. According to the statistics of the Association of Agricultural Machinery Industry of China, the agricultural machinery industry of China recorded an accumulative gross industrial output value of RMB338.2 billion during the Reporting Period, up approximately 19% year on year but the growth rate is approximately 15 percentage points lower than the same period of 2011. Meanwhile, the industry witnessed an apparent imbalanced and incompatible development. Sales of corn harvesters and after-harvest processing machines grew by a staggering 113.3% and 53.7% respectively. 362,087 units of hi-powered and mid-powered tractors were sold in China, representing a year-on-year decrease of 2.3%, and 355,828 units of low-powered tractors were sold, representing a year-on-year decrease of 6.8%.

During the Reporting Period, in light of the new changes in market dynamics, the Company strengthened its market study, intensively cultivated regional markets, accelerated the standardized operation of sales agencies and lean management as well as strengthened the ability to grab end-user. To address the higher power requirement for its products and the needs of paddy fields, the Company paid more efforts in speeding up the adjustment to product structure, marketing its new products, and implementing an effective product mix. As a result, LZ2404A, the hi-powered power shift transmission (PST) tractors under the brand of Dongfanghong which boost the world-leading mainstream technology level achieved sales in mass quantity, indicating a breakthrough in technology upgrade; sales of LX2204, LX1000 and E454 tractors, being our major types of tractors, increased by 172%, 72% and 130% respectively; new products including LY1100, LY1004 and MF604 tractors also achieved sales in mass quantity, laying a solid foundation for future market development. Through accurately grasping the sales opportunities in the second half of 2012 when more government subsidies were granted to hi-powered wheeled tractors of 90 horsepower and above in Henan market, the Company launched promotion activities and further cemented its leading position in the markets of winter wheat growing regions. Through elaborate efforts in sales channels, we made breakthroughs and noticeable achievements in the South China markets where we had no or minor market share before. During the Reporting Period, the Company sold 85,570 units of hi-powered and mid-powered wheeled tractors, representing a year-on-year increase of 0.86%, maintaining its first place in the industry with an increased market share year on year, among hi-powered wheeled tractors, sales of 100 horsepower and above were 21,341 units, representing a year-on-year increase of 70.85%, faster than the industry average; and 41,728 units were mid-powered wheeled tractors, representing a year-on-year increase of 19.63% and a further increase in market share, maintaining its second place in the industry. 1,511 units of crawler tractors were sold, representing a year-on-year decrease of 35.01%, which was due to contracted market demand resulted from the entry of substitute products. Sales of Dongfanghong low-powered wheeled tractors decreased by 41.02% year-on-year, which was because of the Company's product mix adjustment.

# REPORT OF THE DIRECTORS *(continued)*

**Power machinery business**

Dongfanghong has been an industry leader for its power machinery business in ancillary products of 55 horsepower-above tractors and harvesters. During the Reporting Period, amid a slowdown in agricultural machinery products growth and intensifying market competition, the Company accelerated the setting up of the 100-200 horsepower technological platform, and the trial production and promotion of new techniques, thus achieving breakthroughs in engineering machinery, marine machinery, anti-explosion machinery and other new fields while maintaining absolute dominance in tractors of 100 horsepower and above, wheat harvesters of 100-110 horsepower, hi-powered corn harvesters. Jiangyan Power effectively enlarged its market share through accelerating ancillary product development and strengthening after-sales services to consolidate existing client base and develop new customers. During the Reporting Period, 162,458 units of various diesel engines models were sold in the power machinery business of the Company, representing a year-on-year decrease of 3.81%, a pace far slower than the drop of the industry average.

**Other business**

**Other machinery business:** In 2012, as affected by the continued downturn in the coal industry of China and the insufficient production at coal mines in the major coal-producing regions such as Inner Mongolia, Shaanxi and Shanxi, the Company sold 591 units of mining trucks, representing a year-on-year decrease of 2.31%, and 1,600 units of forklifts, representing a year-on-year decrease of 11.4%.

**Financial business:** During the Reporting Period, YTO Finance actively played its role as a financial platform. In addition to the conventional deposit and loan services to provide funding support to the Company, YTO Finance also actively provided support to the product sales of the Company, provided a total financing of RMB721,556,000 for the sales of the Company's products by dealers and bringing sales revenue of RMB998,591,000 to the Company.

# REPORT OF THE DIRECTORS *(continued)*

## (II) Analysis of Financial Results

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

*Unit: RMB'000*

| Item | For the Reporting Period | For the corresponding period of the previous year | Changes (%) |
|---|---|---|---|
| Operating revenue | 11,317,998 | 11,702,673 | –3.3% |
| Operating costs | 9,775,220 | 10,042,301 | –2.7% |
| Selling and distribution expenses | 348,929 | 364,367 | –4.2% |
| Administrative expenses | 744,217 | 712,775 | 4.4% |
| Finance costs | 62,733 | 54,162 | 15.8% |
| Net cash generated from operating activities | 555,133 | 719,484 | –22.8% |
| Net cash generated from investing activities | –747,469 | –810,277 | N/A |
| Net cash generated from financing activities | 607,837 | 231,720 | 162.3% |
| Research and development expenses | 383,640 | 357,368 | 7.4% |

### 2. Revenue

#### (1) Analysis of factors leading to changes in revenue

During the Reporting Period, the Company recorded operating revenue of RMB11,317,998,000, representing a year-on-year decrease of 3.3%, which was mainly due to the decrease in the sales of the Company's primary products such as agricultural machinery products and power machinery products.

# REPORT OF THE DIRECTORS *(continued)*

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

Agricultural machinery products: in 2012, the Company sold 123,717 units of agricultural machinery products, representing a year-on-year decrease of 12.41%; sales revenue amounted to RMB9,616,653,000, representing a year-on-year decrease of 1.2%.

Power machinery products: in 2012, the Company sold 162,458 units of power machinery products, representing a year-on-year decrease of 3.81%; sales revenue amounted to RMB1,224,001,000, representing a year-on-year decrease of 16.7%.

Other machinery products: sales revenue of the Company for mining trucks and forklift trucks amounted to RMB384,975,000, representing a year-on-year decrease of 11.7%.

**(3) Major customers**

During the Reporting Period, sales to the five largest customers of the Company amounted to RMB1,089,383,000, accounting for 9.7% of the total sales of the Company.

**(4) Major suppliers**

During the Reporting Period, purchase from the five largest suppliers of the Company amounted to RMB1,484,716,000, accounting for 16.85% of the total purchase of the Company.

**3. Gross profit and gross profit margin**

During the Reporting Period, the Company realised a gross profit of RMB1,542,778,000, representing a year-on-year decrease of 7.08%. The consolidated gross profit margin was 13.6%, representing a 0.56 percentage point decrease from the previous period.

# REPORT OF THE DIRECTORS *(continued)*

## 4. Expenses

*Unit: RMB'000*

| Item | 2012 | 2011 | Change amount | Change *(%)* |
|---|---|---|---|---|
| Selling and distribution costs | **348,929** | 364,367 | –15,438 | –4.24% |
| Administrative expenses | **744,217** | 712,775 | 31,442 | 4.41% |
| Finance cost | **62,733** | 54,162 | 8,571 | 15.82% |
| Other expenses | **8,527** | 8,342 | 185 | 2.22% |
| Income tax expenses | **70,701** | 84,937 | –14,236 | –16.76% |

(1) The Group's selling and distribution costs for the Reporting Period amounted to RMB348,929,000, representing a year-on-year decrease of RMB15,438,000 or 4.24%, which was mainly attributable to reduced sales of products and reduction of service fees for "three guarantee" (三包服務費) thanks to enhancement in product quality.

(2) The Group's administrative expenses for the Reporting Period was RMB744,217,000, representing a year-on-year increase of RMB31,442,000 or 4.41%, which was mainly attributable to the year-on-year increase of RMB26,271,000 in research and development costs as a result of increased efforts in research and development.

(3) The Group's finance cost for the Reporting Period amounted to RMB62,733,000, representing a year-on-year increase of RMB8,571,000 or 15.82%. Under the circumstance of the increase of investment and delayed payment of the State's subsidies on the purchase of agricultural machinery products, in order to ensure normal production and operation, the Group has obtained more bank borrowings during the Reporting Period, which resulted in an increase in its average loan size.

(4) The Group's other expenses for the Reporting Period amounted to RMB8,527,000, representing a year-on-year increase of RMB185,000,which basically stayed at the same level as last year.

# REPORT OF THE DIRECTORS *(continued)*

(5) During the Reporting Period, the Group's income tax expenses amounted to RMB70,701,000, representing a year-on-year decrease of RMB14,236,000. The Company and its controlled subsidiaries, YTO Diesel and Tractors Research Company and its subsidiary, Luoyang Xiyuan Vehicles and Power Inspection Institute Co., Ltd* (洛陽西苑車輛與動力檢驗所有限公司) successfully passed the review for new and high tech enterprise in October 2011 and will enjoy the preferential income tax rate of 15% from 2011 to 2013. YTO Flag, a subsidiary of the Company, was recognized as new and high tech enterprise in 2010 and will enjoy the preferential income tax rate of 15% from 2010 to 2012.

## 5. Research and development costs

*Unit: RMB'000*

### (1) Table of research and development costs

| | |
|---|---|
| Research and development costs expensed during the Reporting Period | 383,640 |
| Research and development costs capitalized during the Reporting Period | 0 |
| Total research and development costs | 383,640 |
| Total research and development costs as a percentage of net assets *(%)* | 7.84% |
| Total research and development costs as a percentage of operating revenue* *(%)* | 3.42% |

*Note:* Operating revenue does not include revenue generated from the finance business of the Company.

### (2) Explanations

During the Reporting Period, research and development costs were mainly used to the research and upgrade of wheeled tractor of 60-300 horsepower, technological progress and quality enhancement for the Dongfanghong branded mid-powered wheeled tractors, development of hi-power electronic control diesel and research of its matching with the machinery, and application of gear machining new technologies for hi-powered wheeled tractors, so as to enhance the Company's ability in research and development and improve the competitiveness of its products.

# REPORT OF THE DIRECTORS *(continued)*

6. **Cash flows**

As at 31 December 2012, the net increase in cash and cash equivalents amounted to RMB416,651,000, among which, net cash inflow from operating activities was RMB555,133,000, net cash outflow in investing activities was RMB747,469,000, net cash inflow from financing activities was RMB607,837,000, and effect of exchange rate changes amounted to RMB1,150,000.

## (III) Analysis of Assets and Liabilities

*Unit: RMB'000*

| Item | As at the end of the Reporting Period | Percentage of total assets as at the end of the Reporting Period (%) | As at the end of previous reporting period | Percentage of total assets as at the end of previous reporting period (%) | Change over the end of previous reporting period (%) |
|---|---|---|---|---|---|
| Property, plant and equipment | **2,414,122** | 21.8% | 2,168,402 | 22.2% | 11.3% |
| Interests in associates | **7,810** | 0.1% | 19,815 | 0.2% | –60.6% |
| Available-for-sale financial assets | **159,450** | 1.4% | 202,710 | 2.1% | –21.3% |
| Loan receivables | **884,824** | 8.0% | 666,095 | 6.8% | 32.8% |
| Deferred income tax assets | **64,585** | 0.6% | 46,667 | 0.5% | 38.4% |
| Inventories | **1,363,535** | 12.3% | 1,195,451 | 12.2% | 14.1% |
| Trade and bill receivables | **2,268,990** | 20.5% | 2,445,949 | 25.0% | –7.2% |
| Financial assets at fair value through profit or loss | **306,801** | 2.8% | 77,398 | 0.8% | 296.4% |
| Held-to-maturity financial assets | **52,090** | 0.5% | — | — | N/A |
| Cash and cash equivalents | **1,825,339** | 16.5% | 1,394,695 | 14.3% | 30.9% |
| Trade and bill payables | **2,548,365** | 23.0% | 2,344,853 | 24.0% | 8.7% |
| Placements from banks and non-bank financial institutions | **360,000** | 3.2% | 200,000 | 2.0% | 80.0% |
| Borrowings | **1,068,741** | 9.6% | 1,155,468 | 11.8% | –7.5% |
| Deferred income | **161,440** | 1.5% | 111,728 | 1.1% | 44.5% |

# REPORT OF THE DIRECTORS *(continued)*

**Property, plant and equipment:** As at 31 December 2012, property, plant and equipment of the Group increased by RMB245,720,000 from the beginning of the Reporting Period. The increase was mainly because the Group increased investment in fixed assets such as production lines during the Reporting Period in order to enhance competitiveness of its products.

**Interests in associates:** As at 31 December 2012, the Group's interests in associates decreased by RMB12,005,000 from the beginning of the Reporting Period, which was mainly because YTO Shunxing YTO Shunxing was included in the scope of consolidation of the Group since June 2012 after the completion of the Group's acquisition of 60% equity interest in YTO Shunxing held by Liaoning Shunxing Company and the natural persons during the Reporting Period in order to enhance its capability in manufacturing core parts and components.

**Available-for-sale financial assets:** As at 31 December 2012, available-for-sale financial assets (non-current) of the Group decreased by RMB19,900,000 from the beginning of the Reporting Period, which was mainly because the Group disposed of its available-for-sale financial assets in light of the fluctuations of the financial market during the Reporting Period. Available-for-sale financial assets (current) of the Group decreased by RMB23,360,000 from the beginning of the Reporting Period, which was mainly because the Group transferred its equity interest in Southwest Stainless Steel Co., Ltd. (西南不銹鋼有限責任公司) in light of future gains during the Reporting Period.

**Loan receivables:** As at 31 December 2012, loan receivables (non-current) and loan receivables (current) of the Group increased by RMB11,351,000 and RMB207,378,000 respectively from the beginning of the Reporting Period, which was mainly because YTO Finance increased its loans to the Group in light of the sufficient capital of YTO Finance and the sustained profitability of the Group and its subsidiaries and for the purpose of enhancing efficiency in fund use.

**Deferred income tax assets:** As at 31 December 2012, deferred income tax assets of the Group increased by RMB17,918,000 from the beginning of the Reporting Period, which was mainly because the Group recognized deferred income tax assets in respect of the recoverable losses of YTO France.

# REPORT OF THE DIRECTORS *(continued)*

**Inventories:** As at 31 December 2012, the inventories of the Group increased by RMB168,084,000 from the beginning of the Reporting Period, which was mainly because the Group increased relevant stocks in light of the forthcoming sales peak season in the coming year (such stocks were at a relatively low level at as the end of 2011 due to the strong uncertain movements of raw material prices).

During the Reporting Period, inventories turnover was 47 days, which is basically the same as last year.

**Trade and bill receivables:** As at 31 December 2012, bill receivables and trade receivables of the Group amounted to RMB1,292,596,000 and RMB976,394,000 respectively, representing a decrease of RMB279,111,000 and an increase of RMB102,152,000 respectively from the beginning of the Reporting Period, which was mainly due to the deferred payment of the State's subsidies for purchase of agricultural machinery products.

**Financial assets at fair value through profit or loss:** As at 31 December 2012, the Group's financial assets at fair value through profit or loss increased by RMB229,403,000 from the beginning of the Reporting Period, which was mainly because YTO Finance purchased financial assets at fair value through profit or loss in light of the fluctuations of the financial market.

**Held-to-maturity financial assets:** As at 31 December 2012, the Group's held-to-maturity financial assets increased by RMB52,090,000 from the beginning of the Reporting Period, which mainly represented the purchase of corporate bonds by YTO Finance during the Reporting Period.

**Cash and cash equivalents:** As at 31 December 2012, the Group's cash and cash equivalents increased by RMB430,644,000 from the beginning of the Reporting Period, which was mainly due to the year-end payment concentration for the Group's products sales.

**Trade and bill payables:** As at 31 December 2012, the Group's trade payables amounted to RMB2,030,232,000, representing an increase of RMB336,831,000 from the beginning of the Reporting Period, which was mainly due to the extended payment deadlines negotiated with its suppliers by the Group in order to seize market opportunities and to address the prolonged payment of sale of agricultural machinery. Bill payables amounted to RMB518,133,000, representing a decrease of RMB133,319,000 from the beginning of the Reporting Period.

# REPORT OF THE DIRECTORS *(continued)*

**Placements from banks and non-bank financial institutions:** As at 31 December 2012, the Group's placements from banks and non-bank financial institutions increased by RMB160,000,000 from the beginning of the Reporting Period, which mainly because YTO Finance obtained placements from other financial institutions to meet the capital needs by the Group for stock-up for the first quarter of 2013.

**Borrowings:** As at 31 December 2012, the Group's short-term borrowings decreased by RMB518,227,000 from the beginning of the Reporting Period, while the Group's long-term borrowings increased by RMB431,500,000 from the beginning of the Reporting Period, which was mainly because the Group adjusted its liabilities structure in line with the changes in its assets structure after the Group increased investments in designated fixed assets such as the wheeled tractor project of the industrial park and the hi-powered diesel engine project, and conducted the acquisitions of YTO Flag and YTO Axle during the Reporting Period.

**Deferred income:** As at 31 December 2012, the Group's deferred income increased by RMB49,712,000 from the beginning of the Reporting Period, which was mainly because the Group received government subsidies of RMB53,200,000 for the project on enhancement of core capability of new-type wheeled tractors which is in line with the national incentive policy during the Reporting Period.

# REPORT OF THE DIRECTORS *(continued)*

## (IV) Analysis of Core Competitiveness

1. The Company possesses the industry leading research and development capability. The Company has a largest and strongest technical team in China. The Company has a world-class pilot test base which is the most advanced in China, and is able to conduct round-the-clock pilot manufacturing and monitoring of various types of tractors. The Company developed and pilot manufactured world-leading new products such as the hi-powered wheeled tractors under the brand of Dongfanghong and energy saving and environmental friendly diesel engines with proprietary intellectual property rights. As one of the few enterprises in China which is capable of the mass production of hi-powered wheeled tractors of 100 horsepower and above, the Company also successfully developed the first heavy-duty PST tractor in China, representing the latest technology in tractor filed in China. In addition, the Company drafted and amended approximately 240 items of industrial standards from time to time and possesses nearly 200 patents.

2. The Company boasts the most comprehensive ability in core parts and components manufacturing in the agricultural machinery industry in China and a leading manufacturing craftsmanship in China, has established a comprehensive manufacturing system with both cold and hot processing capacities and built in place the most complete manufacturing chain in the agricultural machinery industry in China covering blank processing, parts processing and final assembly and testing. All the key parts and components such as forging pieces, gears, diesel engines, fuel injection parts and transmission are manufactured in-house by the Company. The Company has automated production lines with capacity for processing large and complex high-precision forgings, a number of CNC flexible machining production lines, multi-product assembly lines with online detecting capacity as well as robotic coating lines. Such complete manufacturing system enables the Company to have an effective whole-process control on product quality and performance and enhance the cost performance and competitiveness of its products, thereby securing its leading position in the domestic tractor sector and enhancing its ability to compete globally.

3. The Company has a nationwide agricultural machinery marketing service network comprising over 1,000 distributors and over 1,600 sales and service terminals, which is the largest marketing network with the most comprehensive coverage in the industry and enables the Company to adapt to the fast-growing market needs. In addition, the Company possesses strong market resources-allocation capacity and has established long-term strategic partnership with specialized component-makers and material suppliers, giving a strong support to the research and development of new products, product quality and cost control.

4. The "Dongfanghong (東方紅)" trademark of the Company is one of the earliest "Famous Trademarks of China" and has been the representative brand of China's agricultural machinery industry for years, enjoying high popularity and reputation in the domestic market.

5. The Company has an excellent management team that possesses in-depth understanding of the industry, and strong corporate management and market development capability and a stable and highly-skilled team of industrial workers.

During the Reporting Period, there was no material change in the Company's core competitiveness.

## (V) Analysis of Investments

### 1. Overall analysis of external equity investments

During the Reporting Period, the Company's external equity investments totaled RMB980,000, representing a year-on-year increase of RMB560,000 or 133.3%. The basic information on the investee companies are as follows:

| Name | Investment amount *(RMB)* | Principal business | Shareholding percentage of the investee company |
|---|---|---|---|
| Nanyang Xiangrui Company | 1,400,000 | Advertisement agency, property lease, agricultural machinery lease, agricultural machinery technological services, investment in market construction (other than items subject to approval stipulated by laws and regulation, and the decisions of the State Council). | 7% |
| Total | 1,400,000 | | |

# REPORT OF THE DIRECTORS *(continued)*

**Equity interests in non-listed financial enterprise**

*Unit: RMB'000*

| Name of the investee | Initial investment amount *(RMB'000)* | Shares held *('000)* | Shareholding percentage *(%)* | Closing book value *(RMB'000)* | Profit/loss during the Reporting Period *(RMB'000)* | Changes in owners' equity during the Reporting Period *(RMB'000)* | Accounting item | Sources of shares |
|---|---|---|---|---|---|---|---|---|
| Bank of Luoyang Co., Ltd. | 78,129 | 107,480 | 4.89 | 78,129 | 16,122 | — | Lon-term equity investment | Purchase |
| Shenyin & Wanguo Securities Co. Ltd | 500 | 405 | 0.006 | 500 | | — | Lon-term equity investment | Purchase |
| Total | 78,629 | 107,885 | | 78,629 | 16,122 | | | |

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

**(1) Entrusted assets management**

The Company had no entrusted assets management matters during the year.

**(2) Entrusted loans**

*Unit: RMB'000*

| Opening balance of entrusted loans | Additions during the Reporting Period | Actual recovery of principal of entrusted loans | Closing balance of entrusted loans |
|---|---|---|---|
| 100,000 | 107,000 | 100,000 | 107,000 |

# REPORT OF THE DIRECTORS *(continued)*

| Name of borrower | Amount of entrusted loans | Term of the loan | Interest rate of the loan | Uses of the loan | Whether past due | Whether connected transaction | Whether extended the term | Whether any litigation | Source of fund and specify whether from the funds raising | Connected Relationship | Expected rate of return | Gains/ losses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YTO (Luoyang) Transporting Machinery Co., Ltd | 4,000 | One year | 7.87% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 7.87% | Gains |
| YTO (Luoyang) Forklift Co., Ltd. | 3,000 | One year | 7.87% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 7.87% | Gains |
| YTO Shentong | 10,000 | One year | 8.53% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 8.53% | Gains |
| YTO Shentong | 10,000 | One year | 8.53% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 8.53% | Gains |
| YTO Shentong | 40,000 | Half year | 7.28% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 7.28% | Gains |
| YTO Shentong | 30,000 | Half year | 7.28% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 7.28% | Gains |
| YTO Shentong | 10,000 | Half year | 7.28% | Production and operation | No | No | No | No | Not raised funds | Controlled subsidiary | 7.28% | Gains |

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

*Unit: RMB'000*

| Type of investment | Source of funds | Signing party | Amount of Investment | Term | Product type | Expected return | Investment gains/losses | Whether any litigation |
|---|---|---|---|---|---|---|---|---|
| Trust | Internal resources | Gansu Trust | 40,000 | 12 months | Gansu Trust Product | — | 8,050 | No |
| Trust | Internal resources | Zhong Yuan Trust | 90,000 | 12 months | World Trade Project (世貿項目) | — | 5,201 | No |
| Trust | Internal resources | Zhong Yuan Trust | 30,000 | 18 months | Yuhua Project (宇華項目) | — | — | No |
| Trust | Internal resources | Zhong Yuan Trust | 20,000 | 18 months | Langzi Project (朗姿項目) | — | — | No |
| Trust | Internal resources | Zhong Yuan Trust | 40,000 | 23 months | Xingwangda Project (欣旺達項目) | — | — | No |

# REPORT OF THE DIRECTORS *(continued)*

## 3. Use of proceeds from share issue

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

*Unit: RMB'000*

| Year of fundraising | Fundraising method | Total proceeds | Total amount used in this year | Total amount used on an accumulative basis | Total unutilized amount | Use of the unutilized proceeds |
|---|---|---|---|---|---|---|
| 2012 | Initial public offering | 810,000 | 373,642 | 373,642 | 400,091 | Idle proceeds will be used to temporarily replenish working capital on the premises that the projects to be financed by the raised proceeds will not be affected. The remaining proceeds will be deposited in the designated bank account which will be continuously used to invest in the project on upgrading and improvement of the hi-powered agricultural diesel engines, the project on establishment of tractors assembly station(s) in Xinjiang, the project on enhancement of the core capability of new wheeled tractors and the project on upgrading, capacity-enhancement and improvement of the fuel injection system products. |
| Total | | 810,000 | 373,642 | 373,642 | 400,091 | |

*Note:* Total unutilized amount included RMB77 million of idle proceeds used to temporarily replenish working capital by the Company during the Reporting Period.

# REPORT OF THE DIRECTORS *(continued)*

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

*Unit: RMB'000*

| Project name | Any changes to project | Intended investment amount of the proceeds | Investment amount in this year | Accumulative investment amount | Whether in line with schedule | Project schedule | Expected return | Profit generated | Whether in line with expected return | Explanations on failures in meeting the schedule or expected return | Reason for changes and explanation on the change procedures |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Hi-powered agricultural diesel engines project | No | 260,000 | 206,406 | 206,406 | Yes | 79.39% | – | – | – | under construction | No change |
| The project on establishment of tractors assembly station(s) in Xinjiang | No | 110,000 | 44,972 | 44,972 | Yes | 40.88% | – | – | – | under construction | No change |
| The project on enhancement of the core capability of new wheeled tractors | No | 300,000 | 122,264 | 122,264 | Yes | 40.75% | – | – | – | under construction | No change |
| The project on upgrading, capacity-enhancement and improvement of the fuel injection system products | No | 103,733 | 0 | 0 | Yes | – | – | – | – | under construction | No change |
| Total | | 773,733 | 373,642 | 373,642 | | | | | | | |

For the details of deposit and uses of the raised proceeds of the Company during the Reporting Period, please refer to the "special report on the deposit and actual use of raised proceeds of the Company".

# REPORT OF THE DIRECTORS *(continued)*

**4. Analysis of major subsidiaries and equity participating companies**

**(1) Information on major subsidiaries**

**YTO Finance:** Registered capital: RMB500 million; scope of business: provision of financial services. As at 31 December 2012, total assets amounted to RMB3,325.96 million, net assets amounted to RMB604.10 million and net profit for 2012 was RMB50.30 million.

**YTO France:** Registered capital: EUR20 million; scope of business: manufacture and sales of agricultural machinery accessories. As at 31 December 2012, total assets amounted to RMB245.14 million, net assets amounted to RMB72.35 million and net loss for 2012 was RMB40.86 million.

**YTO Diesel:** Registered capital: USD6 million; scope of business: manufacture and sales of engines. As at 31 December 2012, total assets amounted to RMB1,210.83 million, net assets amounted to RMB430.94 million and net profit for 2012 was RMB113.52 million.

**Tractors Research Company:** Registered capital: RMB341.00 million; scope of business: research and development of tractors. As at 31 December 2012, total assets amounted to RMB535.22 million, net assets amounted to RMB462.96 million and net profit for 2012 was RMB21.61 million.

**YTO Injection Pump:** Registered capital: RMB94.114 million; scope of business: production and sale of fuel injection pump products. As at 31 December 2012, total assets amounted to RMB229.64 million, net assets amounted to RMB120.63 million and net loss for 2012 was RMB6.34 million.

**YTO Power Machinery:** Registered capital: RMB38 million; scope of business: production and sale of engines. As at 31 December 2012, total assets amounted to RMB142.2 million, net assets amounted to RMB50.11 million and net profit for 2012 was RMB3.62 million.

**YTO International:** Registered capital: RMB66.00 million; scope of business: sales of agricultural machinery. As at 31 December 2012, total assets amounted to RMB138.02 million, net assets amounted to RMB70.34 million and net profit for 2012 was RMB30,000.

# REPORT OF THE DIRECTORS *(continued)*

**YTO Flag:** Registered capital: RMB50 million; scope of business: production and sale of covering parts of agricultural machineries. As at 31 December 2012, total assets amounted to RMB367.34 million, net assets amounted to RMB96.79 million and net profit for 2012 was RMB39.25 million.

**YTO Axle:** Registered capital: RMB50 million; scope of business: manufacture and sales of axles and boxes for agricultural machinery. As at 31 December 2012, total assets amounted to RMB325.02 million, net assets amounted to RMB224.96 million and net loss for 2012 was RMB2.22 million.

**(2) Acquisition and disposal of subsidiaries during the year**

In order to enhance its manufacturing capacity for core components and reduce connected transactions, the Company completed the acquisition of 100% equity interests in YTO Flag and YTO Axle in the Reporting Period, both of which have been consolidated into the consolidated financial statements of the Company upon completion of the acquisitions.

During the Reporting Period, in order to materialize the integration of semi-finished and finished forging product processing, raise the added-value of its forging products and gain control over the manufacturing of diesel engine crankshafts, the Company acquired the 38% and 22% equity interests in YTO Shunxing from Liaoning Shunxing Company and 16 natural person shareholders respectively. Upon completion of the acquisition, the Company owns the 100% equity interests in YTO Shunxing which has been incorporated into the consolidated financial statements of the Company.

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

**YTO Finance,** recording operating revenue of RMB110,880,000 for the Reporting Period, with operating profit and net profit amount to RMB70,890,000 and RMB50,300,000 respectively.

**YTO Diesel,** recording operating revenue of RMB1,672,040,000 for the Reporting Period, with operating profit and net profit amount to RMB116,360,000 and RMB113,520,000 respectively.

# REPORT OF THE DIRECTORS *(continued)*

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

**YTO Diesel** and **YTO Power Machinery** are principally engaged in the manufacture and sale of non-road diesel engines used in agricultural machinery, small-sized construction machinery, while **YTO Injection Pump** is principally engaged in the manufacture of diesel engine fuel injectors and injection pumps. Products manufactured by these companies are supporting products for agricultural machinery. During the Reporting Period, affected by the decline in agricultural machinery industry, the sales of related power machinery products saw a decrease, which led to decrease in operating results.

**YTO Flag,** the sales volumes of its tractor parts and automotive stampings fell during the Reporting Period due to the downturn in automobile and tractor industries, which led to a decrease in its operating profit and net profit.

**YTO France,** established in 2011, the company gradually entered into normal operation during the Reporting Period and recorded a year-on-year increase in operating revenue with less losses.

**YTO International**, still in the building stage of the international sales channel and network during the Report Period and caused a rather substantial decrease of operating revenue. The company was actively exploring new revenue source, cutting expenditure and strictly controlling costs. The gross profit and net profit of the company increased during the Reporting Period.

**5. Projects not funded by proceeds from fundraising activities**

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

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

## (I) Competition dynamics and development trend of the industry

In 2013, despite the unfavorable factors such as the slowdown in the growth of national economy, changes in industrial development environment and uncertainties in the international market, the industry is still expected to see a moderate growth trend for the whole year as driven by the continued steady growth in China's macro economy and the positive effects generated from the structural adjustment to the machinery industry and in particular strengthened preferential policy of China to enhance and benefit agriculture.

**Agricultural machinery industry:** The central government's "No.1 Document（一號文件）" has emphasized on "agriculture, farmers and rural areas" for 10 consecutive years, especially in relation to subsidies for purchasing agricultural machinery. The Central Finance has arranged RMB20 billion as the first batch of subsidies for purchasing agricultural machinery in 2013, representing a net increase of RMB7 billion as compared to the first batch of RMB13 billion in 2012, with the subsidies amount and coverage being further increased. As China accelerates the urbanization process, strengthens its support to adjustment of agricultural structure, continues to speed up the land transfer and implements new reform polices involving the agricultural machinery cooperatives, specialized households of agricultural machinery and family farms, the market demand for large-scale agricultural machinery is bound to see a steady growth . In particular, tractors, as the basic agricultural machineries, will see expanded room for demand as the trend for demand for a higher horsepower continues. Dongfanghong-branded tractors enjoy incomparable comprehensive advantages such as a long product line, complete product types, high brand awareness and reputation, and have sound market performance in major markets such as Northeast China, Northwest China, the winter wheat growing regions and South China where they have won great trust from users for its strong adaptability, and thus are expected to have good market performance.

# REPORT OF THE DIRECTORS *(continued)*

**Power machinery business:** With the steady growth of agricultural machinery and the moderate recovery in construction machinery market, power machinery sector will also see a steady recovery. Considering the gradual release of the new achievements made by the Dongfanghong-branded diesel engines in market development and the application of new technology and new craftsmanship, it is expected that the Dongfanghong-branded power machinery business will experience a steady growth at medium speed.

**Other businesses** such as mining trucks and forklifts: The performance of this sector is highly related to national macro economic policy and the overall construction activities in China. As the comprehensive national strength improves and the macro economy grows steadily, market demand for products such as mining trucks and forklifts will also pick up accordingly. We are optimistic about is market prospects.

## (II) Development strategy of the Company

Through implementing the strategic mindset of "focusing on the core areas for stronger businesses "（聚核鑄強）, the Company will focus on core resources, core business and core markets. Through focusing on the improvement of independent renovation ability, marketing ability, talents ability and international operation ability, the Company will continuously enhance its renovation and operation capabilities. The Company intends to be stronger in the core businesses of tractor and diesel engines, strengthen the golden supply chain system of part and components and be stronger in the markets both at home and abroad. Meanwhile, we will take full advantage of the resources as a listed company and effectively consolidate relevant resources to create better development potential. We will optimize and enhance our overall industrial chain competitiveness with agricultural equipment as its principal business which is supplemented by a moderately diversified operation, and become the leader in the field of agricultural equipment.

## (III) Operation plan

We will ensure a continuous increase and improvement of key indicators such as sales revenue and net profit in 2013 compared to 2012, and endeavor to accomplish the operation targets in an all-around way through taking corresponding strategy and measures to address challenges under the new environment.

1. **Strengthen marketing management:** We intend to increase efforts in market development both at home and abroad with a view for growth in sales revenue and volume. We will strive to sell 91,000 units of hi-powered and mid-powered wheeled tractors, representing a year-on-year increase of 8%. Meanwhile, we will firmly adhere to the brand-based operation strategy.

2. **Accelerate adjustments to product mix and market structure:** For the purpose of improving operation quality, we will adjust product and market structure, so as to improve technical quality of products, enhance profitability of the markets, and streamline the price-forming mechanism and comprehensive competitiveness. To be specific, we will develop our tractor products toward the mid and high-end, our diesel engines toward lower emission and lower consumption, energy conservation and high efficiency, pressure boosting, cooling and electronic control, our rough parts toward finished products, and our parts toward components and assembly. While consolidating its traditional markets, the Company will further strengthen development of such markets where we have no or minor shares, so as to increase the total volume of products sales.

3. **Enhance ability in independent research and development of high-end products:** the Company will, based on the market demand, increase efforts in relevant research and development and continuously launch new products. Through technical cooperation and self-absorption of technology, we are determined to maintain our technologically leading position in China. Focus will be put on the commercialization of products including the PST tractors, electronic control diesel engines and heavy-duty diesels, so that these product could be sold on the market as soon as practicable.

4. **Continue with the cost optimization work:** We will implement financial control based on the budget analysis of product costs, so as to optimize costs structure. We will establish a work platform for advancing, organizing and managing the strategic purchase and adopt the operation model with a combination of both centralized and separate purchases, so as to nail down and strengthen the responsible units for implementation of cost reduction indicators. We plan to exercise an effective control over the purchase costs through various measures such as price-comparisons, price monitoring of bulk raw materials, linkage of materials price to the fluctuations in raw materials prices, and fixed prices. We strive for a higher comprehensive gross profit rate in 2013 as compared with 2012.

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

In terms of the composition of its major products, the Company operates in the agricultural machinery industry which is covered by the national policy for subsidies for purchasing agricultural machinery. However, given the deferred payment of subsidies for agricultural machinery purchases, the sales seasonality and the investments needs of the Company, the Company's funds are subject to a relatively high rate of usage in certain time periods. The Company will finance its production, operation and investment projects mainly through bank loans, bill financing and issue of corporate bonds, etc.

## (V) Potential risks

Please refer to Section II headed "Definitions and Significant Risks Warning" in this Annual Report.

REPORT OF THE DIRECTORS *(continued)*

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

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

N/A

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

N/A

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

N/A

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

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

Pursuant to the resolution on amendments to the Articles of Association (Draft) as considered and approved in the 25th meeting of the fifth Board held on 1 December 2011 and the 2012 first extraordinary general meeting of the Company held on 19 January 2012, the Company's profit distribution policy was revised. The revised profit distribution policy specifies that the Company adopts consistent and stable profit distribution policy; that the Company may distribute dividends by way of cash, bonus shares or a combination of both; that the annual profits distributed by the Company by way of cash shall not be less than 25% of the profit available for distribution for the year (the lower of those in the financial statements under the PRC accounting standards and the international accounting standards), provided that the capital needs for the Company's normal production and operation are satisfied and there is no such events as material investment plan or material cash expense; and that profit distribution plan shall be formulated by the Board and subject to the consideration and approval by shareholders in general meeting.

# REPORT OF THE DIRECTORS *(continued)*

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

N/A

## (III) Cash distribution or conversion of capital reserve into share capital and profit distribution by the Company in the last three years

1. Pursuant to the resolutions of the 2011 second extraordinary general meeting, 2011 first class meeting for holders of H shares and 2011 first class meeting for holders of domestic shares of the Company, the Company's undistributed profits accumulated up to the day prior to completion of the issue of A shares shall be shared by all new and old shareholders of the Company after the issue of A shares. Therefore, no profit was distributed by the Company for 2011.

2. In accordance with the profit distribution policy of the Articles of Association, the Board recommends the following the profit distribution proposal for 2012: a cash dividend of RMB1.00 (tax inclusive) for every ten shares on the basis of a total share capital of 995,900,000 shares as at 31 December 2012. The proposal is still subject to the approval of the shareholders in the 2012 annual general meeting.

*Unit: RMB*

| Year | Number of bonus shares for every 10 shares *(shares)* | Dividend for every 10 shares (tax inclusive) *(RMB)* | Number of conversion shares for every 10 shares *(shares)* | Amount of cash dividends(tax inclusive) | Net profit attributable to the shareholders of the Company as shown in the consolidated financial statements of the Company for the relevant year | Percentage of net profit attributable to the shareholders of the Company as shown in the consolidated financial statements of the Company *(%)* |
|---|---|---|---|---|---|---|
| 2012 | 0 | 1.0 | 0 | 99,590,000.00 | 349,058,312.10 | 28.53% |
| 2011 | 0 | 0 | 0 | 0 | 440,051,003.90 | N/A |
| 2010 | 0 | 2.0 | 0 | 167,724,311.24 | 542,669,716.00 | 30.91% |

# REPORT OF THE DIRECTORS *(continued)*

As the date of the 2012 annual general meeting has not been determined, the relevant record date will be announced later. If the aforesaid proposal is approved by the shareholders, then according to the Income Tax Law of the People's Republic of China effective from 2008 and the implementation rules thereof, the Notice on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders which are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008 and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No.348), the final dividend payable to the non-resident enterprise shareholders and individual shareholders whose names appear on the registers of members of the Company's H shares is subject to withholding of enterprise income tax or individual income tax, both at a rate of 10%. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees or trustees and other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax of 10%.

## V. FULFILLMENT OF SOCIAL RESPONSIBILITY

### (I) Work on social responsibility

For the detailed work of the Company on social responsibility, Please refer to the "Social Responsibility Report of First Tractor Company Limited in 2012"as published at the website of Shanghai Stock Exchange.

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

N/A

# SIGNIFICANT EVENTS

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

### (I) Litigation, arbitration and matters commonly questioned by media which have been disclosed as a temporary announcement and have no further developments

N/A

### (II) Litigation and arbitration which have not been disclosed as a temporary announcement or which have further developments

N/A

### (III) Matters commonly questioned by media which have not been disclosed as a temporary announcement or which have further developments

N/A

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

N/A

## III. BANKRUPTCY REORGANIZATION MATTERS

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

# SIGNIFICANT EVENTS *(continued)*

## IV. ASSETS TRANSACTIONS AND BUSINESS COMBINATIONS

### (I) Acquisition and disposal of assets by the Company and any developments in business combinations

#### 1. Assets acquisitions

*Unit: RMB'000*

| Counterparty or its ultimate controller | Assets acquired | Date of acquisition | Purchase price | Whether a connected transaction | Pricing principle for assets acquisition | Whether transfer of the title of the assets completed | Connected relationship |
|---|---|---|---|---|---|---|---|
| Liaoning Shunxing Company and 16 natural persons | 60% equity interests in YTO Shunxing | 2012.4.27 | 20,765 | No | Determined after arm's length negotiations between both parties based on the appraised net assets value | completed registration of changes with relevant authorities for industry and commerce | — |
| YTO | 100% equity interests in YTO Flag | 2012.12.20 | 158,789 | Yes | Determined after arm's length negotiations between both parties based on the appraised net assets value | completed registration of changes with relevant authorities for industry and commerce | the counterparty is the controlling shareholder of the Company |
| YTO | 100% equity interests in YTO Foundry | 2012.12.20 | 104,478 | Yes | Determined after arm's length negotiations between both parties based on the appraised net assets value | completed registration of changes with relevant authorities for industry and commerce | the counterparty is the controlling shareholder of the Company |
| YTO Kintra | 100% equity interests in YTO Axle | 2012.12.20 | 224,618 | Yes | Determined after arm's length negotiations between both parties based on the appraised net assets value | completed registration of changes with relevant authorities for industry and commerce | A corporation directly controlled by the controlling shareholder of the Company |

**Explanations on assets acquisitions:**

(1) Pursuant to the Equity Transfer Agreements entered into between the Company with Liaoning Shunxing Company and sixteen natural person shareholders of YTO Shunxing, the transfer price was determined based on the appraised net assets value of YTO Shunxing of RMB34,109,000. According to the audit results of profit and loss for the period from the appraisal reference date to the completion date, the final consideration for the equity transfer was RMB20,765,000.

# SIGNIFICANT EVENTS *(continued)*

(2) Pursuant to the YTO Flag Equity Transfer Agreement entered into between the Company and YTO, the transfer price shall be determined based on the appraised net assets value of YTO Flag as at 30 September 2012 of RMB165,610,000. According to the audit results of profit and loss for the period from the appraisal reference date to the equity transfer completion date, the final consideration for the equity transfer was RMB158,789,000.

(3) Pursuant to the YTO Foundry Equity Transfer Agreement entered into between the Company and YTO, the transfer price shall be determined based on the appraised net assets value of YTO Foundry as at 31 August 2012 of RMB104,478,000. The final consideration for the equity transfer shall be confirmed by both parties according to the results of audit of profit and loss for the period from the appraisal reference date to the equity transfer completion date as conducted by an auditing firm. As at the last date of the period covered by this Annual Report, the special audit has not been completed. YTO Foundry was not consolidated into the accounts of the Group in 2012 as the equity transfer was completed on 22 January 2013.

(4) Pursuant to the YTO Axle Equity Transfer Agreement entered into between the Company and YTO Kintra, the transfer price shall be determined based on the appraised net assets value of YTO Axle as at 31 October 2012 of RMB225,279,000. According to the audit results of profit and loss for the period from the appraisal reference date to the equity transfer completion date, the final consideration for the equity transfer was RMB224,618,000.

### 2. Assets disposals

The Company had no assets disposal during the Reporting Period.

### 3. Assets swap

The Company had no assets swap during the Reporting Period.

### 4. Business combination

The Company had no business combination during the Reporting Period.

## V. EQUITY INCENTIVES AND ITS EFFECTS

N/A

# SIGNIFICANT EVENTS *(continued)*

## VI. MATERIAL CONNECTED TRANSACTIONS

### (I) Connected transactions related to ordinary and usual operations

**Matters which have been disclosed as a temporary announcement and which has further developments or changes**

*Unit: RMB'000*

| Date of Approval | Counterparty | Relationship | Whether the transaction falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules | Content of the connected transaction | Pricing principle | Estimated annual cap for 2012 | Actual transaction amount in 2012 | Percentage in the total amount of the same type of transactions *(%)* |
|---|---|---|---|---|---|---|---|---|
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | Sales of goods to the Company and its subsidiaries | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 1,900,000 | 1,174,898 | 13.36 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | provision of certain welfare, storage, transportation, consumption services, administrative services for retired employees etc. to the Company and its subsidiaries | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 140,000 | 124,090 | 82.60 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | provision of energy and related services to the Company and its subsidiaries | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 300,000 | 91,413 | 75.71 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | purchase of goods from the Company and its subsidiaries | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 1,800,000 | 574,106 | 5.14 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | lease of properties to the Company and its subsidiaries | Market price; if there is no comparable market price, the rent to be determined based on the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises and the relevant taxes | 8,000 | 5,161 | 69.22 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | lease of lands to the Company and its subsidiaries | Market price; if there is no comparable market price, the rent to be determined based on the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises and the relevant taxes | 26,000 | 6,135 | 100 |
| 2009.10.21 | YTO | Controlling shareholder | Continuing connected transaction | lease of properties from the Company and its subsidiaries | Market price; if there is no comparable market price, the rent to be determined based on the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises and the relevant taxes | 12,000 | 4,475 | 66 |
| 2010.12.10 | Tractors Research Company | Associate of YTO | Continuing connected transaction | Provision of technology research and development, technology consultation and other technology services by Tractors Research Company to the Company | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 180,000 | 84,480 | 92.5 |

# SIGNIFICANT EVENTS *(continued)*

| Date of Approval | Counterparty | Relationship | Whether the transaction falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules | Content of the connected transaction | Pricing principle | Estimated annual cap for 2012 | Actual transaction amount in 2012 | Percentage in the total amount of the same type of transactions (%) |
|---|---|---|---|---|---|---|---|---|
| 2010.12.10 | YTO | Controlling shareholder | Continuing connected transaction | Provision of technology research and development, technology consultation and other technology services by Tractors Research Company to YTO | the applicable State Price; if there is no State Price, the market price; if there is no State Price nor market price, costs plus a percentage mark-up | 12,000 | 6,310 | 6.91 |
| 2010.6.28 | YTO | Controlling shareholder | Continuing connected transaction | Proviso of deposit services by YTO Finance to YTO | the rate prescribed by CBRC or the People's Bank of China ("PBOC"); if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under the arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services. | | 993,691 | 43.05 |
| 2010.6.28 | YTO | Controlling shareholder | Continuing connected transaction | Provision of loan services by YTO Finance to YTO | the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under the arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services. | 590,000 | 586,770 | 32.98 |
| 2010.6.28 | YTO | Controlling shareholder | Continuing connected transaction | Provision of loan bills acceptance services by YTO Finance to YTO | the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under the arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services. | 350,000 | 314,016 | 30.69 |
| 2010.6.28 | YTO | Controlling shareholder | Continuing connected transaction | Provision of bills discounting services by YTO Finance to YTO | the rate prescribed by CBRC or PBOC; if the above rate is not applicable, the rate charged in the same industry in the PRC for comparable transactions; if none of the above is applicable, then the services fees will be determined under the arm's length negotiations between YTO Finance and YTO, with reference to the fair price offered by an independent third party in the same industry for the same or similar services. | 400,000 | 211,720 | 49.69 |

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

# SIGNIFICANT EVENTS *(continued)*

## (II) Connected transactions relating to assets acquisition or disposal

*Unit: RMB'000*

| Agreement Date | Related party | Relationship | Whether the transaction falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules | Content of connected transaction | Pricing principle | Book value of the assets acquired | Appraised value of the assets acquired | Price of acquisition | Settlement method | Effects on the operating results and financial condition of the Company |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012.3.19 | YTO | Controlling shareholder | Connected transaction | Acquisition of 24% equity interests in YTO Shentong held by YTO | The consideration for the transaction was arrived at after arm's length negotiations between both parties based on the appraised net assets value of YTO Shentong | -11,576 | -2,937 | 0.001 | In cash | |
| 2012.11.15 | YTO | Controlling shareholder | Connected transaction | Acquisition of 100% equity interests in YTO Flag held by YTO | The consideration for the transaction was arrived at after arm's length negotiations between both parties based on the appraised net assets value of YTO Flag | 103,614 | 165,611 | 158,789 | In cash by installments | As the Company acquired equity interests from its controlling shareholder and the controlling shareholder's subsidiaries, the acquisitions constitute business combination under common control. Acquisitions of YTO Flag and YTO Axle were completed at the end of 2012 and their financial statements have been consolidated with the Company's 2012 financial statements. Transfer of the equity interests in YTO Foundry was completed in January 2013. |
| 2012.11.15 | YTO | Controlling shareholder | Connected transaction | Acquisition of 100% equity interests in YTO Foundry held by YTO | The consideration for the transaction was arrived at after arm's length negotiations between both parties based on the appraised net assets value of YTO Foundry | 72,779 | 104,478 | 104,478 | In cash by installments | |
| 2012.11.15 | YTO Kintra | Corporation directed controlled by the controlling shareholder | Connected transaction | Acquisition of 100% equity interests in YTO Axle held by YTO Kintra | The consideration for the transaction was arrived at after arm's length negotiations between both parties based on the appraised net assets value of YTO Axle | 225,622 | 225,279 | 224,618 | In cash by installments | |

# SIGNIFICANT EVENTS *(continued)*

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

(a) the above continuing connected transactions were entered into in the ordinary and usual course of business of the Group;

(b) the above continuing connected transactions were entered into on normal commercial terms (where applicable, as compared with transactions of similar nature carried out by similar entities in the PRC or, if no available transactions for comparison, on terms no less favourable than those offered by independent third parties of the Group); and

(c) the above continuing connected transactions were conducted on terms of the agreements governing the relevant transactions, which are fair and reasonable and in the interests of the Company's shareholders as a whole.

**Confirmation by auditors**

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

(a) had obtained the approval of the Board;

(b) was conducted in accordance with the pricing policy of the Group and the relevant terms of the agreements; and

(c) did not exceed the cap amounts as disclosed in the relevant announcements (if applicable, as approved by the independent shareholders of the Company) at any time during the Reporting Period.

**Confirmation by Directors**

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

# SIGNIFICANT EVENTS *(continued)*

**Confirmation by the Company in relation to disclosure requirement**

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

**Explanations on connected transactions relating to assets acquisition or disposal**

As at the date of this Annual Report, the special audit of profit and loss for the period from the appraisal reference date to the completion date for YTO Foundry has not been completed.

## (III) Connected transaction relating to joint external investments

*Unit: RMB0'000*

| Joint investor | Connected relationship | Name of the investee company | Principal business of the investee company | Registered capital of the investee company | Total assets of the investee company | Net assets of the investee company | Net profit of the investee company | Progress of any material construction-in-progress of the investee company |
|---|---|---|---|---|---|---|---|---|
| YTO | Controlling Shareholder | Tractors Research Company | Examination and testing of tractors, vehicles, construction machineries, agricultural transporters and their parts; research and development of equipment, technology development, transfer, consultancy services | 34,100 | 53,522 | 46,296 | 2,161 | Construction of the laboratories, pilot plant and ancillary facilities of 2nd phase of the Tractors Research Company project have been completed. Installation and testing of the major detection and testing equipment have been completed. |

# VII. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF

## (I) Custody, contracting and lease matters

### 1. Custody

N/A

### 2. Contracting

N/A

### 3. Lease

N/A

## (II) Guarantees

*Unit: RMB0'000*

**External guarantees provided by the Company (excluding guarantees provided for its subsidiaries)**

| Guarantor | Relationship of the Guarantor with the Company | Beneficiary | Amount of the guarantee | Date of guarantee (date of signing the agreement) | Type of guarantee | Whether discharged | Whether overdue | Overdue amount | Whether any counter-guarantee | Whether related party guarantee | Connected relationship |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The Company | Company headquarter | Business dealers of Quanchengtong (全程通) | 36,000 | 2012.02.27 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| | Company headquarter | Business dealers of Nongjiwang (農機網) | 13,000 | 2012.02.20 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| | Company headquarter | Business dealers of Xiaoshoubao (銷售寶) | 20,000 | 2012.04.28 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| | Company headquarter | Business dealers of Dianpiaotong (電票通) | 42,070 | 2012.02.10 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| | Company headquarter | Business dealers of Changshangyin (廠商銀) | 1,340 | 2012.06.23 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| | Company headquarter | Mining truck users | 26,000 | 2012.01.29 | Guarantee with joint liability | No | No | 0 | Yes | No | No |
| YTO Flag | wholly owned Subsidiary | YTO (Luoyong) Dongchen Mold Technology Co., Ltd. (一拖(洛陽)東晨模具科技有限公司) | 1,400 | 2012.03.13 | Guarantee with joint liability | No | No | 0 | Yes | Yes | Subsidiary of controlling shareholder |

# SIGNIFICANT EVENTS *(continued)*

| | |
|---|---|
| Total amount of the guarantees provided by the Company during the Reporting Period (excluding guarantees provided for its subsidiaries) | 139,810 |
| Total outstanding amount as at the end of the Reporting Period (A) (excluding guarantees provided for its subsidiaries) | 75,750 |

**Guarantees provided by the Company for its subsidiaries**

| | |
|---|---|
| Total amount of the guarantees provided by the Company to its subsidiaries during the Reporting Period | 14,154.08 |
| Total outstanding amount of the guarantees provided by the Company to its subsidiaries as at the end of the Reporting Period (B) | 9,154.08 |

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

| | |
|---|---|
| Total amount of guarantees (A+B) | 84,904.08 |
| Percentage of the total amount of guarantees to the net assets of the Company *(%)* | 19.44% |
| Of which: | |
| Amount of guarantees provided by the Company for its shareholders, de facto controller and related parties (C) | 600 |
| Amount of guarantees directly or indirectly provided for parties with a gearing ratio exceeding 70% (D) | 76,250 |
| The portion of total amount of guarantee in excess of 50% of net assets (E) | 0 |
| Total amount of the above three categories of guarantees (C+D+E) | 76,850 |

**Explanations on possible joint and several repayment liability for outstanding guarantees**

| | |
|---|---|
| Explanation on guarantees | During the Reporting Period, before the completion of the acquisition of the 100% interest in YTO Flag held by the Company's controlling shareholder YTO, YTO Flag has provided guarantee of an actual amount of RMB6,000,000 to subsidiaries of YTO. After completion, the guarantee constitutes guarantee provided to connected parties. |

| | **2012** | 2011 |
|---|---|---|
| Occurred amounts of the estimated liabilities arising from guarantee during the Reporting Period | **0** | 0 |
| Balance of the estimated liabilities arising from guarantee as at the end of the Reporting Period | **0** | 0 |

### (III) Assets Pledge

As of 31 December 2012, the Group did not pledged any land use rights to obtain bank loans for the Company.

As of 31 December 2012, the Group pledged certain bills receivable of RMB191,050,000 and deposits of RMB132,693,000 to secure bills payable of RMB518,133,000 of the Group.

### (IV) Other Material Contracts

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

## VIII. FULFILLMENT OF UNDERTAKINGS

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

| Background | Type | Party making the undertaking | Content | Whether any time limit for performance | Whether performed timely and strictly | Reasons for non-performance | In case of non-performance, explain relevant future plans |
|---|---|---|---|---|---|---|---|
| Undertaking related to the initial public offering | Solutions to connected transactions | YTO | According to relevant statutory procedures, YTO will endeavour to procure the Company to complete the acquisition of all equity interest or relevant assets and business of YTO Kintra and YTO Flag held by YTO no later than 31 December 2012. According to relevant statutory procedures, YTO will endeavour to procure YTO Foundry to complete improvement of cupola furnaces the soonest possible to fully solve the environmental protection issue, and procure the issuer to complete the acquisition of all the equity interest or relevant assets and business of YTO Foundry held by YTO by 31 December 2012. If the Company cannot complete the acquisition of all the equity interest or relevant assets and business of the above three companies by 31 December 2012, YTO undertook to sell the equity interest or relevant assets and business of the aforesaid companies not acquired yet to independent third parties. | Yes | Yes | | |
| Undertaking related to the initial public offering | Solutions to business competition | The Company | Commencing from 11 January 2012, YTO (Luoyang) Farming Implements Company Limited no longer engages in the purchase, assembly and sales of farming implements products other than the supporting sale of the farming implements products which have been purchased or ordered. The Company and all its controlled subsidiaries shall not engage in the processing, production or assembly of farming implements, except the supporting sales and relevant procurement. | No | Yes | | |

# SIGNIFICANT EVENTS *(continued)*

| Background | Type | Party making the undertaking | Content | Whether any time limit for performance | Whether performed timely and strictly | Reasons for non-performance | In case of non-performance, explain relevant future plans |
|---|---|---|---|---|---|---|---|
| Undertaking related to the initial public offering | Solutions to business competition | YTO | YTO will not engage in and procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where YTO or other enterprises controlled by it may bring unfair impact on the Company in respect of market share, business opportunity and resources allocation, YTO will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company. | No | Yes | | |
| Undertaking related to the initial public offering | Solutions to business competition | Sinomach | Sinomach will not engage in and procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where Sinomach or other enterprises controlled by it may bring unfair impact on the Company in respect of market share, business opportunity and resources allocation, Sinomach will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company. | No | Yes | | |
| Undertaking related to the initial public offering | Restriction on trading of shares | Sinomach | Within 36 months after the date of initial public offering, listing and trading of A shares of the Company, Sinomach will not transfer or engage others to manage the shares of the Company issued before the initial public offering of shares of the Company directly and indirectly held by Sinomach, nor allow the Company to repurchase such shares. | 36 months | Yes | | |
| Undertaking related to the initial public offering | Restriction on trading of shares | YTO | Within 36 months after the date of initial public offering, listing and trading of A shares of the Company, YTO will not transfer or engage others to manage the shares of the Company issued before the initial public offering of shares of the Company directly and indirectly held by YTO, nor allow the Company to repurchase such shares. | 36 months | Yes | | |
| Undertaking related to the initial public offering | Size of deposit and loan | YTO | On 16 August 2010, YTO and YTO Finance entered into the Deposit Agreement and Loan Agreement, which stipulated the annual cap of loan obtained by YTO and its subsidiaries (excluding the Company) from YTO Finance. YTO further undertook that, on the basis of the aforesaid Deposit Agreement and Loan Agreement and cap amount of connected transactions, the loan of YTO and its subsidiaries (excluding the Company) obtained from YTO Finance will be less than their deposits placed with YTO Finance, and ensured the safety of its subsidiaries' loans through various measures. | No | Yes | | |
| Undertaking related to the initial public offering | Improvement of asset integrity | YTO | As to the patents related to the products of the Company and its subsidiaries which are in the process of application, YTO undertook to transfer the relevant 50 patents to the Company at nil consideration upon completion of the applications. Except for the aforesaid patents which are in the process of application, YTO will no longer apply for patents related to the products of the Company and its subsidiaries in its own name. YTO will transfer to the Company at nil consideration any such new technologies related to the products of the Company and its subsidiaries that may be developed by YTO after issue of the undertaking letter, and patents in respect of such technologies will be applied for directly in the name of the Company. | Yes | Yes | | |

## IX. APPOINTMENT OR DISMISSAL OF ACCOUNTING FIRM

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

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

During the Reporting Period, Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong act as the PRC and international auditors of the Company respectively and are responsible to audit the financial statements of the Group for the period ended 31 December 2012 in accordance with the China Accounting Standards for Business Enterprises ("**CASBE**") and Hong Kong Financial Reporting Standards ("**HKFRS**") respectively.

Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong charged the auditors' remuneration of RMB2,317,000 for the audit fee for the year 2012.

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

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

# CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

## I CHANGES IN SHARES DURING THE REPORTING PERIOD

### (I) Table of changes in shares

*Unit: Share*

| | Before movement | | Increase/decrease (+/-) | | | | | After movement | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Percentage (%) | New issue | Bonus issue | Capitalisation of capital reserves | Others | Sub-total | Number of Shares | Percentage (%) |
| **(1) Shares subject to selling restrictions** | 443,910,000 | 52.48% | – | – | – | – | – | 443,910,000 | 44.574% |
| 1. State-owned shares | – | – | – | – | – | – | – | – | – |
| 2. Shares held by state-owned legal persons | 443,910,000 | 52.48% | – | – | – | – | – | 443,910,000 | 44.574% |
| 3. Shares held by other domestic investors | – | – | – | – | – | – | – | – | – |
| Of which: Shares held by domestic non-state-owned legal person | – | – | – | – | – | – | – | – | – |
| Shares held by domestic natural persons | – | – | – | – | – | – | – | – | – |
| 4. Shares held by foreign investors | – | – | – | – | – | – | – | – | – |
| Of which: Shares held by foreign legal persons | – | – | – | – | – | – | – | – | – |
| Shares held by foreign natural persons | – | – | – | – | – | – | – | – | – |
| **(2) Tradable shares not subject to selling restrictions** | 401,990,000 | 47.52% | 150,000,000 | – | – | – | 150,000,000 | 551,990,000 | 55.426% |
| 1. RMB-denominated ordinary shares | – | – | 150,000,000 | – | – | – | 150,000,000 | 150,000,000 | 15.062% |
| 2. Domestic listed foreign shares | – | – | – | – | – | – | – | – | – |
| 3. Overseas listed foreign shares | 401,990,000 | 47.52% | – | – | – | – | – | 401,990,000 | 40.364% |
| 4. Others | – | – | – | – | – | – | – | – | – |
| **(3) Total** | 845,900,000 | 100% | 150,000,000 | | | | 150,000,000 | 995,900,000 | 100% |

**2. Explanation on changes in shares**

In accordance with the document Zheng Jian Xu Ke [2012] No. 736 of the CSRC, the Company issued 150,000,000 RMB-dominated ordinary shares (A shares) at the offer price of RMB5.40 per share in July 2012, which were listed on the Shanghai Stock Exchange on 8 August 2012. Upon the share issue, the total shares of the Company increased from 845,900,000 shares before the issue to 995,900,000 shares.

The Company did not issue any convertible securities, warrants or similar rights.

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

Such public issue of 150,000,000 A shares resulted in a decrease in earnings per share and an increase in net assets per share.

### (II) Changes in shares subject to selling restrictions

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

## II. ISSUANCE AND LISTING OF SECURITIES

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

*Unit: Share*

| Types of shares and derivative securities | Date of issue | Issue price (or interest rate) | Issue number | Date of listing | Number of shares approved for listing and trading | Termination date of trading |
|---|---|---|---|---|---|---|
| A share | 27 July 2012 | RMB5.4/share | 150,000,000 | 8 August 2012 | 150,000,000 | |

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

### (II) Changes in the total number of shares of the Company and shareholders' structure and changes in the asset and liability structure of the Company

| | Pre-A Shares IPO | | Post-A Shares IPO | |
|---|---|---|---|---|
| **Name of shareholder** | **Number of shares** | **Shareholding percentage** | **Number of shares** | **Shareholding percentage** |
| YTO | 443,910,000 | 52.48% | 443,910,000 | 44.574% |
| H shares shareholders | 401,990,000 | 47.52% | 401,990,000 | 40.364% |
| A shares shareholders | — | — | 150,000,000 | 15.062% |
| Total number of shares | 845,900,000 | 100% | 995,900,000 | 100% |

The initial public offering of A shares increased the total shares of the Company by 150,000,000 shares and total assets by RMB773,730,000. It also decreased the Company's assets-to-liabilities ratio.

### (III) Existing internal employee shares

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

## III. SHAREHOLDERS AND ULTIMATE CONTROLLER

### (I) Number of shareholders and their shareholdings

*Unit: share*

| | | | |
|---|---|---|---|
| Total number of shareholders as at the end of the Reporting Period | 29,899 | Total number of shareholders as at the end of the fifth trading day before the disclosure date of the Annual Report | 35,939 |

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

**Shareholdings of the top ten shareholders**

| Name of shareholder | Nature of shareholder | Shareholding percentage *(%)* | Total number of shares held | Number of shares held subject to selling restrictions | Number of shares pledged or frozen |
|---|---|---|---|---|---|
| YTO | State-owned legal-person shares | 44.57% | 443,910,000 | 443,910,000 | Nil |
| HKSCC Nominees Limited | Overseas legal-person shares | 40.00% | 398,385,398 | 0 | unknown |
| Wang Baohua (王保華) | Domestic natural person | 0.24% | 2,425,515 | 0 | unknown |
| Zhongrong International Trust Co., Ltd. - Nuoya Dacheng A Share Selection No. 1 (中融國際信託有限公司－諾亞大成A股精選一號) | Domestic non-state-owned legal person | 0.18% | 1,780,000 | 0 | unknown |
| He Zhijian (何志堅) | Domestic natural person | 0.17% | 1,732,540 | 0 | unknown |
| Ma Fachao (馬發潮) | Domestic natural person | 0.17% | 1,671,000 | 0 | unknown |
| Zhu Zengwei (朱增威) | Domestic natural person | 0.17% | 1,648,965 | 0 | unknown |
| Wang Xuezhu (王雪竹) | Domestic natural person | 0.15% | 1,512,400 | 0 | unknown |
| Zou Yashi (鄒亞獅) | Domestic natural person | 0.13% | 1,281,444 | 0 | unknown |
| Yang Jufang (楊菊芳) | Domestic natural person | 0.11% | 1,057,305 | 0 | unknown |

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

**Shareholdings of the top ten holders of shares not subject to selling restrictions**

| Name of shareholders | Number of shares held not subject to selling restrictions | Share Type |
|---|---|---|
| HKSCC Nominees Limited | 398,385,398 | H share |
| Wang Baohua (王保華) | 2,425,515 | A share |
| Zhongrong International Trust Co., Ltd. — Nuoya Dacheng A Share Selection No. 1 (中融國際信託有限公司－諾亞大成A股精選一號) | 1,780,000 | A share |
| He Zhijian (何志堅) | 1,732,540 | A share |
| Zhu Zengwei (朱增威) | 1,648,965 | A share |
| Ma Fachao (馬發潮) | 1,671,000 | A share |
| Wang Xuezhu (王雪竹) | 1,512,400 | A share |
| Zou Yashi (鄒亞獅) | 1,281,444 | A share |
| Yang Jufang (楊菊芳) | 1,057,305 | A share |
| Luo Shaomin (羅少民) | 1,032,500 | A share |

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

## (II) Shareholdings of the top ten holders of shares subject to selling restrictions and the terms of the selling restrictions

*Unit: share*

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

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

As at 31 December 2012, the following shareholders of the Company (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name | Capacity | Number of shares interested [1] | Percentage of the relevant issued class of share capital (%) | Percentage of the total issued share capital of the Company (%) | Type of share |
|---|---|---|---|---|---|
| YTO[2] | Beneficial owner | 443,910,000(L) | 74.74(L) | 44.57(L) | A share |
| Neuberger Berman LLC[3] | Interests of controlled corporations | 38,488,580(L) | 9.57(L) | 3.86(L) | H share |
| The Capital Group Companies, Inc. | Interests of controlled corporations | 36,062,000(L) | 8.97(L) | 3.62(L) | H share |
| Lazard Asset Management LLC | Interests of controlled corporations | 29,132,000(L) | 7.25(L) | 2.93(L) | H share |
| JPMorgan Chase & Co. | Trustee/ interests of controlled corporations/ investment manager | 28,817,494(L) | 7.17(L) | 2.89(L) | H share |
| | Beneficial owner | 107,040(S) | 0.03(S) | 0.01(S) | H share |
| | Trustee | 28,580,454(P) | 7.11(P) | 2.87(P) | H share |

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

*Note 2:* Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 443,910,000 A Shares of the Company.

*Note 3:* Neuberger Berman Group LLC holds the entire share capital of Neuberger Berman Holdings LLC, and Neuberger Berman Holdings LLC holds the entire share capital of Neuberger Berman LLC. Neuberger Berman Group LLC and Neuberger Berman Holdings LLC are both deemed to have the same interest (i.e. 38,488,580 H Shares) in the Company as those owned by Neuberger Berman LLC by virtue of the SFO.

Save as disclosed above, there are no other persons who, as at 31 December 2012, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

# IV. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

## (I) Controlling shareholder

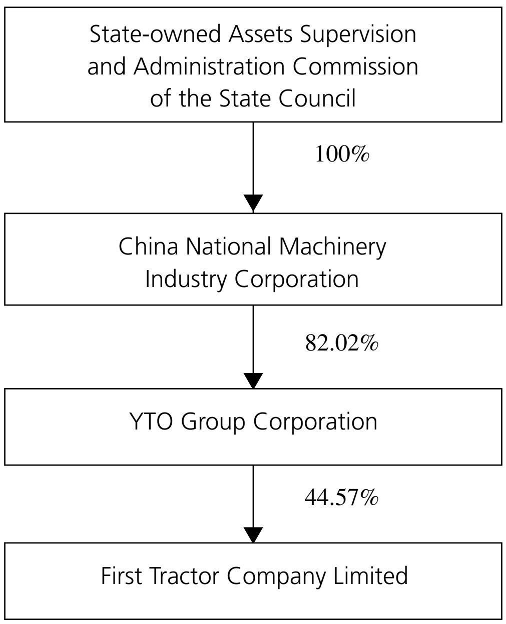
| **Name** | **YTO** |
|---|---|
| The person in charge of the enterprise or its legal representative | Zhao Yanshui |
| Date of establishment | 6 May 1997 |
| Organization code | 16995805 |
| Registered capital | RMB2,876,298,300 |
| Principal businesses | Agricultural machinery, power machinery, vehicles and components |
| Operating results | In 2012, the audited revenue amounted to RMB14,882,020,000 and total profit amounted to RMB485,850,000. |
| Financial position and cash flow situation | As at 31 December 2012, YTO's audited total assets amounted to RMB13,263,270,000 and net assets amounted to RMB5,814,150,000. YTO's audited net operating cashflow amounted to RMB613,390,000. |

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

| | |
|---|---|
| Future development strategy | Mainly focus on capital management, emphasize capital management, capital operation, new business incubator and public services business, revitalize its inventories and selling products and improve return on investment and return on capital; achieve capital appreciation through capital management, achieve product management target through companies operation. Utilize the maximum value of performance of strategic management and capital resources, and promote the sustainable and healthy development of the Company to become a leading and internationally renowned first-class enterprise. |
| Equities interests (either controlling or participating) held in other domestic and overseas listed companies during the Reporting Period | YTO holds 2,284,469 shares in Huatai Securities Limited, representing a shareholding of 0.0408%. |

## (II) Ultimate controller

**Property right and controlling relationship between the Company and the ultimate controller**



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

The Company had no other legal person shareholder holding 10% or more of its shares.

## VI. PRE-EMPTIVE RIGHTS

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

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

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

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

### (I) Change in shareholdings of incumbent or retired Directors, Supervisors and senior management members during the Reporting Period and their remuneration

| Name | Position | Gender | Age | Start and end dates of tenure | Number of shares held at the beginning of the year *(shares)* | Number of shares held at the end of the year *(shares)* | Change in the number of shares held during the year *(shares)* | Reason of change | Total remuneration (before tax) received from the Company during the reporting Period *(RMB)* | Total remuneration received from shareholder entities during the reporting Period *(RMB)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Zhao Yanshui | Chairman, executive Director and General Manager | Male | 50 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 706,300 |
| Su Weike | Vice Chairman and non-executive Director | Male | 51 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 675,400 |
| Yan Linjiao | Non-executive Director | Male | 58 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 711,627 |
| Guo Zhiqiang | Non-executive Director | Male | 57 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 577,180 |
| Dong Jianhong | Non-executive Director | Female | 47 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 590,612 |
| Qu Dawei | Non-executive Director | Male | 48 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 578,680 |
| Liu Jiguo | Non-executive Director | Male | 49 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 547,810 | 40,000 |
| Wu Yong | Executive Director | Male | 48 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 200,340 | 96,360 |
| Hong Xianguo | Independent non-executive Director | Male | 50 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 66,000 | 0 |
| Zhang Qiusheng | Independent non-executive Director | Male | 45 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 68,000 | 0 |
| Xing Min | Independent non-executive Director | Male | 59 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 2,000 | 0 |

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

| Name | Position | Gender | Age | Start and end dates of tenure | Number of shares held at the beginning of the year *(shares)* | Number of shares held at the end of the year *(shares)* | Change in the number of shares held during the year *(shares)* | Reason of change | Total remuneration (before tax) received from the Company during the reporting Period *(RMB)* | Total remuneration received from shareholder entities during the reporting Period *(RMB)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Wu Tak Lung | Independent non-executive Director | Male | 48 | 2012.12.20–2015.12.19 | 10,000 | 10,000 | 0 | None | 2,000 | 0 |
| Li Ping'an | Chairman of the Board of Supervisors | Male | 49 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 384,411 |
| Xu Shidong | Supervisor | Male | 39 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 0 | 212,222 |
| Wang Jianjun | Staff Representative Supervisor | Male | 37 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 269,330 | 0 |
| Xu Weilin | Staff Representative Supervisor | Male | 51 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 200,721 | 0 |
| Wang Yong | Supervisor | Male | 45 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 44,000 | 0 |
| Huang Ping | Supervisor | Male | 45 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 48,000 | 0 |
| Lian Guoqing | Executive Deputy General Manager | Male | 57 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 378,870 | 0 |
| Liu Yao | Deputy General Manager and Chief Technologist | Male | 53 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 339,590 | 0 |
| Hou Zhiping | Deputy General Manager | Male | 55 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 364,290 | 0 |
| Yao Weidong | Chief accountant | Male | 47 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 373,550 | 0 |

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

| Name | Position | Gender | Age | Start and end dates of tenure | Number of shares held at the beginning of the year *(shares)* | Number of shares held at the end of the year *(shares)* | Change in the number of shares held during the year *(shares)* | Reason of change | Total remuneration (before tax) received from the Company during the reporting Period *(RMB)* | Total remuneration received from shareholder entities during the reporting Period *(RMB)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Zhu Weijiang | Deputy General Manager | Male | 42 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 367,160 | 0 |
| Su Wensheng | Deputy General Manager | Male | 45 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 360,935 | 0 |
| Song Yuping | Deputy General Manager | Male | 49 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 364,290 | 0 |
| Yu Lina | Secretary to the Board and Investor Relationship Manager | Female | 43 | 2012.12.20–2015.12.19 | 0 | 0 | 0 | None | 364,290 | 0 |
| Li Youji | Former Director | Male | 50 | 2009.7.1–2012.1.29 | 0 | 0 | 0 | None | 0 | 236,000 |
| Liu Yongle | Former Director | Male | 57 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 0 | 577,380 |
| Chan Sau Shan, Gary | Former independent non-executive Director | Male | 60 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 62,000 | 0 |
| Luo Xiwen | Former independent non-executive Director | Male | 68 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 66,000 | 0 |
| Zheng Luyu | Former Chairman of the Board of Supervisors | Male | 60 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 0 | 600,492 |
| Yi Liwen | Former Supervisor of staff representative | Female | 51 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 0 | 180,004 |
| Shao Jianxin | Former staff representative Supervisor | Male | 60 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 176,338 | 0 |
| Ren Huijuan | Former Deputy General Manager | Female | 55 | 2009.7.1–2012.12.20 | 0 | 0 | 0 | None | 355,274 | 0 |

*Note:* Mr. Liu Jiguo did not receive remuneration from the Company since November 2012 as a result of job relocation and received remuneration from YTO for November and December 2012; Mr. Wu Yong received remuneration from YTO from January to May 2012 and from the Company since June 2012 as a result of job relocation.

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

## (II) Major work experience of Directors, Supervisors and senior management members of the Company for the last five years

### 1. Major work experience of incumbent or retired Directors for the last five years

**Mr. Zhao Yanshui**, the Chairman, executive Director, General Manager, the chairman of the Strategy & Investment Committee and a member of the Nomination Committee under the Board of the Company, the chairman of YTO, a director of BCM as well as the deputy governor of Association of Agricultural Machinery Industry of China. Mr. Zhao served as director and general manager of YTO and as Director of Company from April 2005 to June 2009; as vice chairman and general manager of YTO from June 2009 to June 2011 and as a Director of Company from June 2009 to November 2011. Mr. Zhao has been serving as the Chairman of the Company since November 2011 and as the chairman of YTO since June 2011. Mr. Zhao has extensive experience in the fields of corporate management, strategic planning, product development and design and technology management. He has been serving as a Director of the Company since July 2003.

**Mr. Su Weike**, Vice Chairman and non-executive Director of the Company, a member of the Strategy & Investment Committee under the Board of the Company, an assistant to general manager of Sinomach and the party secretary and the vice chairman of YTO. Mr. Su was the general manager of China National Construction & Agricultural Machinery Import & Export Corporation from 2007 to June 2009. He has been an assistant to general manager of Sinomach since 2009, the party secretary of YTO since October 2010 and a Vice Chairman of the Company since June 2011. Mr. Su has extensive experience in the fields of corporate management and international trading. He has been serving as a Director of the Company since June 2011.

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

**Mr. Yan Linjiao**, a non-executive Director of the Company, a member of the Audit Committee and the Strategy & Investment Committee under the Board of the Company, director and general manager of YTO, the chairman of Luoyang First Motor Company Limited and a director of BCM. He was a director and executive deputy general manager of YTO from August 2007 to July 2011 and the general manager of the Company from August 2007 to June 2009. He has been serving as a Director of the Company since August 2007 and a director and the general manager of YTO since July 2011. Mr. Yan is familiar with design and manufacture of machinery and with substantial experience in the fields of corporate management, production and operation. He has been serving as a Director of the Company since June 2004.

**Mr. Guo Zhiqiang**, a non-executive Director of the Company, a deputy general manager of YTO, the director of the technical center of YTO, the chairmen of Tractors Research Company and the chairman of YTO (Shenyang) Tractors Company Limited. He has been a deputy general manager of YTO and the director of the technical center of YTO since December 2007,. Mr. Guo is familiar with design and manufacture of machinery, and has extensive experience in the fields of research and development of products and technologies as well as enterprise production management. He has been serving as a Director of the Company since December 2012.

**Ms. Dong Jianhong**, an executive Director of the Company, member of the Remuneration Committee under the Board and deputy head of the finance department of Sinomach, director of the Bank of Luoyang, supervisor of Luoyang First Motor Company Limited, director of YTO Diesel and supervisor of YTO (Shenyang) Tractors Company Limited. She was the deputy chief accountant and head of the finance department of YTO and the chief accountant of the Company from August 2007 to December 2007, the chief accountant and head of the finance department of YTO and the chief accountant of the Company from December 2007 to January 2008, and the chief accountant of YTO and head of the finance department from January 2008 to September 2012. She has been the chief accountant of the Company from September 2007 to December 2010. She has been the deputy head of the finance department of Sinomach since September 2012. Ms. Dong is familiar with financial management of conglomerates and is well experienced in the fields of accounting, financial management and capital management. She has been serving as a Director of the Company since July 2009.

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

**Mr. Qu Dawei**, an executive Director of the Company, deputy general manager of YTO, the chairman of YTO Kintra and the chairman of YTO (Luoyang) Dongchen Mold Technology Company Limited. Mr. Qu was an executive deputy general manager of the Company from 2008 to June 2009, and deputy general manager of YTO and general manager of the Company from June 2009 to December 2010. Mr. Qu has been a deputy general manager of YTO since 2011. Mr. Qu is familiar with the research and development of the technological equipment, and has extensive experience in the fields of business management. He has been serving as a Director of the Company since July 2009.

**Mr. Liu Jiguo**, a non-executive Director of the Company, deputy general manager of YTO, a director of YTO Heilongjiang Agricultural Machinery Co., Ltd., the chairman of China-Africa Machinery Corp. and a director of YTO (Heilongjiang) Dongfanghong Industrial Park Company Limited (一拖（黑龍江）東方紅工業園有限公司). Mr. Liu was a deputy general manager of the Company from August 2007 to June 2009, assistant to general manager of YTO and deputy general manager of the Company from June 2009 to December 2010, and the general manager of the Company from December 2010 to November 2012. Mr. Liu is familiar with machinery and equipment manufacturing technique and marketing, and has extensive experience in the fields of corporate management, production operation and financial operation. He has been serving as a Director of the Company since June 2011.

**Mr. Wu Yong**, an executive Director of the Company, member of the Remuneration Committee under the Board, the party secretary of the Company as well as deputy general manager of YTO and an executive director of YTO Flag. Mr. Wu was a director and the general manager of YTO Flag from January 2006 to February 2009, the Company, the head of the party work department of YTO from February 2009 to January 2013, and a member of the party committee and assistant to the secretary to the party committee of YTO from October 2011 to September 2012. Mr. Wu has been the secretary to the party committee and secretary to the disciplinary committee of the Company since October 2011, and a deputy general manager of YTO since September 2012. Mr. Wu has extensive experience in the fields of corporate management, human resources management and corporate cultural establishment. He has been serving as an executive Director of the Company since 20 December 2012.

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

**Mr. Hong Xianguo**, an independent non-executive Director of the Company, chairman of the Nomination Committee and the Remuneration Committee under the Board, the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers, the vice chairman of China Agricultural Mechanization Association, the vice chairman of Technical Committee on Standardization of Agricultural Machinery of China, a consultant to the Technical Committee on Standardization of Tractors of China and a member of the leading group for safety production under the Ministry of Industry and Information Technology. From May 2006 to December 2011, he was the vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers. Since December 2011, he has been the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers. Mr. Hong is familiar with the development of domestic and overseas agricultural machinery industry and had chaired or participated in the researches and reports in relation to a number of PRC agricultural machinery industry policies. He has been serving as an independent non-executive Director of the Company since July 2009.

**Mr. Zhang Qiusheng**, an independent non-executive Director, a member of the Strategy & Investment Committee and the chairman of the Audit Committee under the Board of the Company. Mr. Zhang is also the director of China Mergers and Acquisitions Research Centre（中國企業兼併重組研究中心）of Beijing Jiaotong University and an independent director of Shandong Kingenta Ecological Engineering Company Limited, Beijing Dinghan Technology Company Limited and Tong Oil Tools Company Limited. Mr. Zhang has been serving at the School of Economics and Management of Beijing Jiaotong University for the past five year. He has been serving as an independent non-executive Director of the Company since August 2010.

**Mr. Xing Min**, an independent non-executive Director, a member of the Nomination Committee and the Remuneration Committee under the Board and the deputy president and secretary-general of China Internal Combustion Engine Industry Association. He is also an independent director of Jiangsu Yunyi Electric Company Limited, Wuxi Weifu High-technology Company Limited and Jinan Qingqi Motorcycle Company Limited. He has been the deputy president and secretary-general of China Internal Combustion Engine Industry Association since 2008. Mr. Xing holds the title of senior engineer with professorship and is familiar with internal combustion engine, machine tool, heavy machinery and agricultural machinery industry. He has been serving as an independent non-executive Director of the Company since 20 December 2012.

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

**Mr. Wu Tak Lung**, an independent non-executive Director, a member of the Audit Committee and the Remuneration Committee under the Board of the Company and the managing director of CAF International Investment Management Company Limited. He is concurrently serving as an independent non-executive director of Aupu Group Holding Company Limited, a company listed on the Hong Kong Stock Exchange, and Valuetronics Holdings Limited, a company listed on the main board of the Singapore Exchange. He was an executive director of MasterLink Securities (H.K.) Corporation Limited and the head of the investment banking division therein from July 2007 to February 2009, an executive director of CSC Asia Limited and the head of the division of corporate finance from February 2009 to July 2010, and an executive director of Ample Finance Group Limited (豐盛金融集團有限公司) and the head of the investment banking division from July 2010 to July 2011. He has been the managing director of CAF International Investment Management Company Limited since August 2011. Mr. Wu had worked at various securities and investment companies and is familiar with finance and investment management business. He has been serving as an independent non-executive Director of the Company since 20 December 2012.

**Mr. Li Youji**, a former non-executive Director of the Company. Mr. Li was a deputy general manager of YTO from August 2006 to January 2007, and a deputy general manager of YTO and the Company from January 2007 to October 2007, and a deputy general manager of YTO and a Director of the Company from October 2007 to January 2012. He resigned as a Director of the Company in January 2012.

**Mr. Liu Yongle**, a former non-executive Director of the Company. Mr. Liu was a director, deputy party secretary and the chairman of labour union of YTO from September 2006 to June 2009, deputy party secretary and the chairman of labour union of YTO from June 2009 to November 2009, and a Director of the Company from July 2009 to December 2012. He has been the deputy party secretary of YTO since November 2009. He resigned as a Director of the Company on 20 December 2012.

**Mr. Chan Sau Shan, Gary**, a former non-executive Director of the Company. Mr. Chan served as an independent non-executive Director of the Company from July 2006 to December 2012. He was the deputy chief executive officer of ICEA Financial Holdings Limited and the managing director of ICEA Capital Limited from early 2006 to early 2010, and the managing director of Tung Shing Securities Limited (東盛證券有限公司) from early 2010 to August 2011. He resigned as an independent non-executive Director of the Company on 20 December 2012.

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

**Mr. Luo Xiwen**, a former non-executive Director of the Company. Mr. Luo was an independent non-executive Director of the Company from July 2006 to December 2012, and has been a professor and doctoral tutor at South China Agricultural University since 2007. He resigned as an independent non-executive Director of the Company on 20 December 2012.

**2. Major work experience of incumbent or retired Supervisors for the last five years**

**Mr. Li Ping'an,** the chairman of the Board of Supervisors of the Company, the chief legal advisor and deputy secretary to the disciplinary committee of YTO as well as the chairman of the supervisory committee of Luoyang Business Daily Company Limited (洛陽商報有限責任公司) . Mr. Li served at YTO as head of the legal affairs department and staff representative supervisor from June 2009 to April 2011. He has been the chief legal advisor and staff representative supervisor of YTO since April 2011. Mr. Li has extensive experience in legal affairs and legal risk management. He has been serving as a Supervisor and chairman of the Board of Supervisors of the Company since 20 December 2012.

**Mr. Xu Shidong**, a Supervisor of the Company, the head of the assets and finance department of YTO, the chairman of the supervisory committee of YTO Kintra and a supervisor of YTO (Luoyang) Logistics Company Limited. Mr. Xu was the chief accountant of YTO Flag from December 2007 to February 2009 and a deputy general manager of YTO Foundry from March 2009 to December 2009. He has been the head of the assets and finance department of YTO since January 2010. Mr. Xu has extensive experience in corporate financial management. He has been serving as a Supervisor of the Company since 20 December 2012.

**Mr. Wang Jianjun**, a staff representative Supervisor of the Company, the party secretary and the chairman of the Labour Union of No. 4 Assembly factory. Mr. Wang was the deputy head of the Department of Relations between the Party and the General Public (黨群工作部副部長) and the deputy secretary of Communist Youth League (團委副書記) of YTO from January 2007 to August 2007, and the secretary of Communist Youth League (團委書記) of YTO and the party secretary and the chairman of the Labour Union of No. 4 Assembly factory of the Company from August 2007 to April 2011. Mr. Wang has been the party secretary and the chairman of the Labour Union of No. 4 Assembly factory of the Company since April 2011. Mr. Wang has extensive experience in the fields of product development and handling relations between the party and the general public. He has been serving as a staff representative Supervisor of the Company since December 2010

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

**Mr. Xu Weilin**, a staff representative Supervisor of the Company, the factory manager and the party secretary of the No. 1 assembly factory (第一裝配廠) of the Company. Mr. Xu served at the No. 1 assembly factory (第一裝配廠) of the Company as the party secretary and secretary to the disciplinary committee from August 2009 to July 2012, and has been the factory manager, the party secretary and secretary to the disciplinary committee of the No. 1 assembly factory (第一裝配廠) of the Company since July 2012. Mr. Xu has rich experience in audit and supervision and corporate management. He has been serving as a staff representative Supervisor of the Company since December 2012

**Mr. Wang Yong**, a Supervisor of the Company, the head and professor of Institute of Commercial Law of School of Civil Commercial and Economic Law of China University of Political Science and Law and a member of the International Exchange Committee of China University of Political Science and Law. He is also a standing council member of China Commercial Law Institute, a council member of China Securities Law Institute, a lawyer at Beijing Longan Law Firm and an independent director of SG Microelectronics (Beijing) Company Limited, Zhejiang Firstar Panel Technology Company Limited and Beijing ZZNode Technology Company Limited. Mr. Wang has long been engaging in research and legal practice of civil law, company law and securities law, and has extensive experience in the areas of civil law, company law, securities law and corporate governance. He has been serving as a Supervisor of the Company since June 2009.

**Mr. Huang Ping**, a Supervisor of the Company, the deputy director of Luoyang Zhonghua Certified Public Accountants Company Limited and an independent non-executive director of Luoyang Glass Company Limited. He is also a standing council member of Institute of Certified Public Accountants of Luoyang, the vice president of Luoyang Judicial Authentication Association and a standing council member of Luoyang Entrepreneurs Association. Mr. Huang has been serving at Luoyang Zhonghua Certified Public Accountants Company Limited during the last five years. Mr. Huang possesses 14 years of experience in accounting and auditing as a certified accountant and has extensive experience in the fields of financial audit, corporate reorganisation, debt-to-equity swap, investment and financing, mergers and acquisitions as well as bankruptcy and liquidation. He has been serving as a Supervisor of the Company since June 2009.

**Mr. Zheng Luyu**, a former chairman of the Board of Supervisors of the Company. Mr. Zheng has the deputy secretary to the Party Committee and secretary to the Disciplinary Committee of YTO since 2007. He resigned as a Supervisor and chairman of the Board of Supervisors of the Company on 20 December 2012.

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

**Ms. Yi Liwen**, a former Supervisor of the Company. Ms. Yi was the primary auditor of the Audit Supervision Department of YTO from January 2008 to November 2008, assistant to the head of the Audit Supervision Department of YTO from November 2008 to May 2009, and the deputy head of the Audit Supervision Department of YTO from May 2009 to February 2012. She has been the head of the Audit Department of YTO Group since 2012. She resigned as a Supervisor of the Company on 20 December 2012.

**Mr. Shao Jianxin**, a former staff representative Supervisor of the Company. Mr. Shao served at the mid-powered and low-powered wheeled tractors branch of the Company as secretary to the Party Committee, the chairman of the labour union and manager from September 2008 to June 2009. He was the head of the production and operation department of the Company from June 2009 to January 2013. He resigned as a Supervisor of the Company on 20 December 2012.

## 3. Major work experience of incumbent or retired senior management members of the Company for the last five years

**Mr. Zhao Yanshui**, the General Manager of the Company. For his biography, Please refer to "Major work experience of incumbent or retired Directors for the last five years".

**Mr. Lian Guoqing**, executive deputy general manager of the Company, an executive director of Changhong Trading and the chairman of YTO (Luoyang) Harvesting Machinery Co., Ltd. (一拖(洛陽)收穫機械有限公司) and YTO (Luoyang) Zhongcheng Machinery Co., Ltd.(一拖(洛陽)中成機械有限公司). Mr. Lian was the factory manager of the No. 3 assembly factory of the Company from October 2006 to December 2007, the deputy general manager of the agricultural equipment division of the Company and the factory manager of the No. 3 assembly factory of the Company from December 2007 to September 2008, the general manager of the Agricultural Equipment Division of the Company from September 2008 to June 2009, and a deputy general manager of the Company and the general manager of the Agricultural Equipment Division of the Company from June 2009 to January 2010. He has been a deputy general manager of the Company since January 2010. Mr. Lian is familiar with mechanic design and manufacture, and has extensive experience in the fields of production and operation as well as corporate management.

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

**Mr. Liu Yao**, deputy general manager and chief technologist of the Company and the general manager of YTO France. Mr. Liu was the deputy chief engineer of the Company and deputy general manager of the agricultural equipment division of the Company from May 2007 to October 2007, the deputy chief engineer of the Company from October 2007 to November 2008, and the chief quality engineer (總質量師) of the Company from November 2008 to December 2009. He has been serving as the chief technologist of the Company since December 2009, and the deputy general manager of the Company since November 2012. Mr. Liu was familiar with the machinery manufacturing technology and has rich experience in quality and technique management.

**Mr. Hou Zhiping**, deputy general manager of the Company, a director of YTO Power Machinery, Shanghai Dragon (Group) Co., Ltd., YTO Shentong, and YTO Shunxing as well as the director and general manager of YTO Heilongjiang Agricultural Machinery Co., Ltd.. Mr. Hou served as the deputy general manager of the agricultural equipment division of the Company from December 2007 to January 2010, the head of the planning and development department of the Company from January 2010 to January 2011, and assistant to the general manager of the Company from January 2011 to November 2012. He has been a deputy general manager of the Company since November 2012. Mr. Hou has rich experience in production and operation and corporate management.

**Mr. Yao Weidong**, chief accountant of the Company, executive director of YTO (Luoyang) Forklift Co., Ltd and the chairman of YTO Shentong. Mr. Yao is also an executive director of (Luoyang) Transporting Machinery Co., Ltd, the chairman of Shanghai Dragon (Group) Co., Ltd, a supervisor of YTO International, Luoyang Changhong Trading Co., Ltd, Luoyang Changxing Agricultural Machinery Co., Ltd, YTO (Luoyang) Harvesting Machinery Co., Ltd and Jiangyan Power, the chairman of the supervisory committee of YTO Finance and a supervisor of YTO (Xinjiang) Machinery. He was the head of the finance department of the Company from August 2007 to January 2011, and the deputy chief accountant and the head of the finance department of the Company from January 2011 to November 2012. He has been serving at the Company as chief accountant since November 2012. Mr. Yao has extensive experience in corporate financial management.

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

**Mr. Zhu Weijiang**, deputy general manager of the Company, director of Luoyang First Motors Company Limited, executive director of YTO (Xinjiang) Machinery, executive director of Luoyang Changxing Agricultural Machinery Co., Ltd and director of YTO Finance. Mr. Zhu was the deputy general manager of the automobile division of YTO from January 2007 to March 2008, the assistant general manager of the agricultural equipment division of the Company from March 2008 to June 2009, the assistant general manager (temporary) of the Company and the assistant general manager of the agricultural equipment division of the Company from June 2009 to January 2010, the assistant general manager of the Company and the general manager of the marketing center of the agricultural equipment division of the Company January 2010 to October 2011 and the assistant general manager of the Company from October 2011 to November 2012. He has been the assistant general manager of the Company since November 2012. Mr. Zhu has extensive experience in mechanical design, agricultural machinery market research and marketing planning.

**Mr. Su Wensheng**, deputy general manager of the Company. Mr. Su served as the factory manager of the No. 3 assembly factory of the Company from September 2008 to October 2011, and as the assistant general manager of the Company and the factory manager of the No. 3 assembly factory of the Company from October 2011 to November 2012. He has been the deputy general manager of the Company and the factory manager of the No. 3 assembly factory of the Company since November 2012. Mr. Su is familiar with machinery manufacturing and design, and has extensive experience in the fields of production and operation and corporate management.

**Mr. Song Yuping**, deputy general manager of the Company and a director of Tractors Research Company and YTO Power Machinery. Mr. Song served as the factory manager of the No. 4 assembly factory of the Company from August 2007 to October 2011, and as the assistant general manager of the Company and the factory manager of the No. 4 assembly factory of the Company from October 2011 to November 2012. He has been serving as the assistant general manager of the Company and the factory manager of the No. 4 assembly factory of the Company since November 2012. Mr. Song is familiar product design and manufacturing, and has extensive experience in product quality management.

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

**Ms. Ren Huijuan**, a former deputy general manager of the Company. Ms. Ren was the head of the party committee work department (黨委工作部長) and the vice chairman of the labour union of YTO from March 2007 to September 2008, the party secretary and deputy general manager of the Company from September 2008 to October 2011, and the chairman of the labour union of YTO and a deputy general manager of the Company from October 2011 to December 2012. Ms. Ren retired in January 2013.

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

### (I) Positions in shareholder entities

Please refer to the subsection headed "Major work experience of incumbent or retired Directors for the last five years" in this section.

### (II) Positions in other entities

Please refer to the subsection headed "Major work experience of incumbent or retired Directors for the last five years" in this section.

## III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

| | |
|---|---|
| Decision making process for remuneration of Directors, Supervisors and senior management members | The remuneration packages of Directors and Supervisors are proposed by the Remuneration Committee under the Board and, after having been considered and approved by the Board, submit for shareholders' approval at a general meeting. The remuneration packages of senior management members shall be proposed by the Remuneration Committee under the Board and approved by the Board. |
| Basis for determining the remuneration of Directors, Supervisors and senior management members | The remuneration packages of Directors, Supervisors and senior management members are determined based on remuneration level of the industry and with reference to the Company's remuneration system and operating results for current year. |
| Remuneration payable to Directors, Supervisors and senior management members | During the Reporting Period, the Company paid RMB5,018,788 (including the remuneration of Directors and Supervisors resigned or retired in the Reporting Period) to its Directors, Supervisors and senior management members. |
| Total remuneration received by all Directors, Supervisors and senior management members as at the end of the Reporting Period | RMB5,018,788 |

## IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

| Name | Position | Change | Reason of change |
|---|---|---|---|
| Li Youji | Non-executive Director | Resigned | Resignation for personal reasons |
| Liu Yongle | Non-executive Director | Retired | Expiry of tenure without re-election |
| Chan Sau Shan, Gary | Independent non-executive Director | Retired | Expiry of tenure without re-election |
| Luo Xiwen | Independent non-executive Director | Retired | Expiry of tenure without re-election |
| Zheng Luyu | Supervisor | Retired | Expiry of tenure without re-election |
| Yi Liwen | Supervisor | Retired | Expiry of tenure without re-election |
| Shao Jianxin | Staff representative Supervisor | Retired | Expiry of tenure without re-election |
| Ren Huijuan | Deputy General Manager | Resigned | Job relocation |
| Liu Jiguo | General Manager | Resigned | Job relocation |
| Zhao Yanshui | General Manager | Appointed | Job relocation |
| Guo Zhiqiang | Non-executive Director | Appointed | Re-election of the Board |
| Wu Yong | Executive Director | Appointed | Re-election of the Board |
| Wu Tak Lung | Independent non-executive Director | Appointed | Re-election of the Board |
| Xing Min | Independent non-executive Director | Appointed | Re-election of the Board |
| Li Ping'an | Supervisor | Appointed | Re-election of the Board of Supervisors |
| Xu Weilin | Staff representative Supervisor | Appointed | Re-election of the Board of Supervisors, election by the staff congress |
| Xu Shidong | Supervisor | Appointed | Re-election of the Board of Supervisors |

## V. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

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

## VI. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

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

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

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

## VIII. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules , were as follows:

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

## IX. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

## XI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

### (I) Employees

| | |
|---|---|
| Number of existing employees of the Company | 5,636 |
| Number of existing employees of subsidiaries | 6,598 |
| Total existing employees | 12,234 |
| Number of retired employees who are pensioned by the Company and its major subsidiaries | 13,024 |

**Staff composition**

| **Category** | **Number of persons** |
|---|---|
| Production staff | 7,800 |
| Sales staff | 1,018 |
| Technical staff | 1,426 |
| Administrative staff | 1,775 |
| Service staff | 215 |
| Total | 12,234 |

**Educational Background**

| Education level | Number of persons |
|---|---|
| Postgraduate and above | 187 |
| Graduate | 2,093 |
| Diploma | 2,383 |
| Below diploma | 7,571 |
| Total | 12,234 |

## (II) Remuneration policy

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

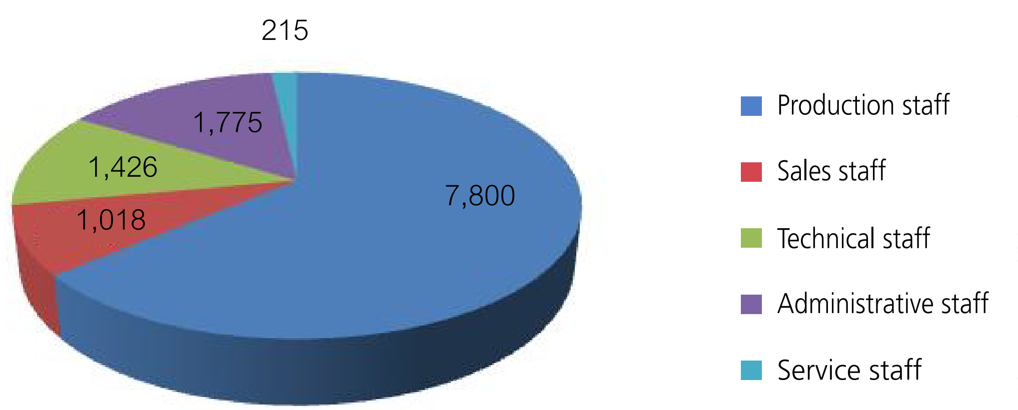
The Company continued to implement multi-channel incentive policy and develop career development paths for all types of employee. For personnel working in the engineering technology and professional management fields, positions such as chief expert, first-ranked experts, second-ranked experts, officers, person-in-charges have been set up. For personnel working in the technical operation field, positions such as chief technician, technician officers, supervisor-technicians have been set up. Remunerations and benefits, allowances and subsidies and work-related expenditures have been linked to multi-channel professional positions and management positions. Through setting up projects in the beginning of the year, quarterly review, performance appraisal and monetary awards, employees are fully motivated and innovative, giving strong personnel support to the development of the Company.

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

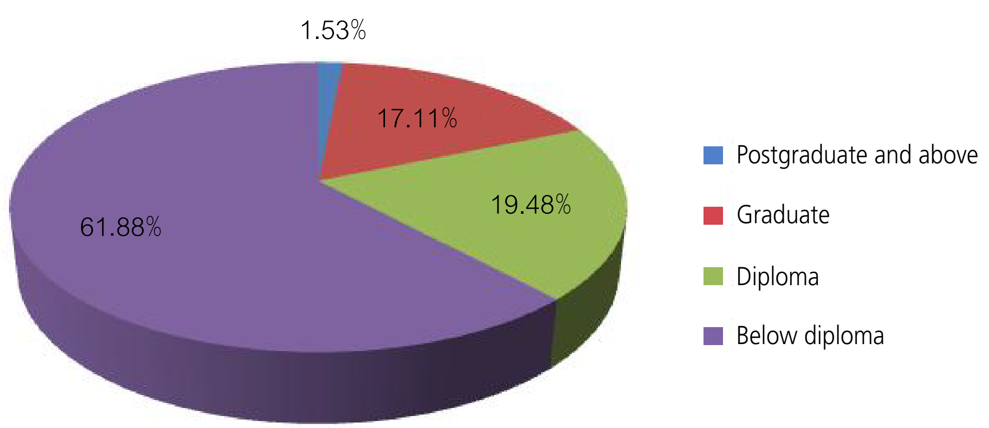
## (III) Training plan

The Company further improved staff training and development system and focused on enhancing the caliber of the staff as the starting and end points for staff training. Multi-tier, cross-system trainings have been tailored-made to staff in the middle and senior management, technical operation and marketing management in order to constantly improve the staff's know-hows and technical knowledge, and thus the capacity and the quality of the staff can meet the requirements of the rapidly developing Company. The Company has sent approximately 100 members of the reserve senior management team and the core team to Fudan University, Henan University of Science and Technology to pursue advanced studies. The Company has also sent seven staff to participate in the training session of Sinomach for international market business development. During the Reporting Period, the Company organized a total of 1,732 various training courses for 40,427 persons.

## (IV) Staff composition chart




## (V) Educational level chart



# CORPORATE GOVERNANCE

## I. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT SYSTEM

### (I) Corporate Governance

As a company dual-listed both in Shanghai Stock Exchange and the Stock Exchange, the Company operates in strict compliance with the laws, regulations and regulatory documents of jurisdictions where the shares of the Company are listed, and strives to improve its corporate governance. According to the requirements of the Company Law, the Securities Law of the PRC and the regulations of the CSRC, the Company continuously improved its corporate governance structure and put in place checks and balances among the general meetings, the Board of Directors, the Board of Supervisors and the operation management, with each of them having separate duties and responsibilities and performing its functions within the specified terms of reference, thereby ensuring all the operational activities of the Company are carried out according to the rules and regulations.

### (II) Insiders Registration and Management

The Board of Directors attaches great importance to the management and control over insider information. During the Reporting Period, the Company enhanced the dissemination and learning of insider information management knowledge among its Directors, Supervisors, senior management members and the departments and employees that may have access to insider information. With regard to insider information management, the Company strictly implemented the Management System for Persons Informed of Insider Information and timely carried out insiders registration and filing for significant events as such periodical reports in 2012.

## II. SHAREHOLDERS AND GENERAL MEETINGS

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

Shareholders individually or jointly holding more than 10% of the shares of the Company requesting the convening of an extraordinary general meeting or a class meeting shall proceed in accordance with the procedures set out in article 110 of the Articles of Association.

# CORPORATE GOVERNANCE *(continued)*

According to article 78 of the Articles of Association, when the Company convenes a general meeting, shareholder(s) individually or jointly holding more than 3% of the Company's shares shall have the right to submit new proposals to the Company. Shareholders individually or jointly holding more than 3% of the Company's shares may raise a provisional proposal and submit to the Board in writing 10 days prior to the date of the general meeting. The Board shall issue a supplemental notice of general meeting announcing the contents of the provisional proposals within 2 days upon receipt of the proposals.

In relation to the procedures for putting forward proposals at general meetings or procedures by which enquiries may be put to the Board, please contact Ms. Yu Lina, the Secretary to the Board. Her contact details are set out in Company Profile.

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

During the Reporting Period, five general meetings were held by the Company, including the 2011 annual general meeting, and four extraordinary general meetings. The resolutions of these meetings were published in China Securities Journal and Shanghai Securities News and on the websites of the Shanghai Stock Exchange, the Stock Exchange and the Company.

## (I) 2012 First Extraordinary General Meeting

Convening date: 19 January 2012

Contents of the resolutions:

1. Conditional upon obtaining the approval from the CSRC and the completion of the Issue of A Shares, to consider and approve the proposed amendments to the Articles of Association (Draft).

2. The provision of guarantees by the Company for dealers designated by the Company (or its authorized subsidiaries).

3. The provision of guarantees by the Company for customers of the subsidiaries of the Company.

Voting results: all resolutions passed

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

Date of publication of the voting results: 19 January 2012

# CORPORATE GOVERNANCE *(continued)*

## (II) 2012 Second Extraordinary General Meeting

Convening date: 6 March 2012

Contents of the resolution: Conditional upon obtaining the approval from the CSRC and the completion of the Issue of A Shares, to consider and approve the proposed amendments to the Articles of Association (Draft).

Voting results: passed

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

Date of publication of the voting results: 6 March 2012

## (III) 2011 Annual General Meeting

Convening date: 15 June 2012

Contents of the resolutions:

1. the report of the Board for the year 2011

2. the report of the Board of Supervisors for the year 2011

3. the audited financial report of the Company for the year 2011

4. the distribution proposal of the Company in respect of the dividend for the year 2011.

5. the appointment of the Company's auditors for the year 2012 and their remunerations

6. the authorization to the Board to determine matters related to investments

7. the authorization to the Board to place, issue or deal with the domestic shares and H share of the Company

8. the authorization to the Board to declare the distribution of an interim dividend for the half year ended 30 June 2012

# CORPORATE GOVERNANCE *(continued)*

Voting results: all passed

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

Date of publication of the voting results: 15 June 2012

## (IV) 2012 Third Extraordinary General Meeting

Convening date: 9 November 2012

Contents of the resolutions:

1. The provision of external guarantee by the Company

2. The issue of corporate bonds

Voting results: all passed

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

Date of publication of the voting results: 9 November 2012

## (V) 2012 Fourth Extraordinary General Meeting

Convening date: 20 December 2012

Contents of the resolutions:

1. election of non-independent Directors of the sixth Board of the Company

2. election of independent Directors of the sixth Board of the Company

3. election of non-staff representative Supervisors of the sixth Board of Supervisors of the Company

4. the remuneration proposals for the Directors of the sixth Board and Supervisors of the sixth Board of Supervisors

5. the remuneration proposals for the extended service of the Directors of the fifth Board and Supervisors of the fifth Board of Supervisors

6. the purchase of directors' liabilities insurance for the Directors, Supervisors and senior management members of the Company

7. the continuing connected transactions of the Company for 2013 to 2015 and relevant authorization

8. the acquisition of equity interests in three companies including YTO Flag

Voting results: Except for the Deposit Service Agreement between YTO Finance and YTO, all the other resolutions were passed

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

Date of publication of the voting results: 20 December 2012

# CORPORATE GOVERNANCE *(continued)*

## III. PERFORMANCE OF DUTIES BY DIRECTORS

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

| | | Attendance at Board meetings | | | | | | Attendance at general meetings |
|---|---|---|---|---|---|---|---|---|
| Name | Independent non-executive Director | Required attendance for the year | Actual attendance | Attendance by means of communication | Attendance by proxy | Absence | Absence from two consecutive meetings | Attendance at general meetings |
| Zhao Yanshui | No | 9 | 9 | 5 | 0 | 0 | No | 4/5 |
| Su Weike | No | 9 | 8 | 3 | 1 | 1 | No | 4/5 |
| Yan Linjiao | No | 9 | 9 | 5 | 0 | 0 | No | 5/5 |
| Guo Zhiqiang | No | 1 | 1 | 1 | 0 | 0 | No | 0/0 |
| Dong Jianhong | No | 9 | 9 | 5 | 1 | 0 | No | 3/5 |
| Qu Dawei | No | 9 | 9 | 5 | 1 | 0 | No | 5/5 |
| Liu Jiguo | No | 9 | 9 | 5 | 0 | 0 | No | 5/5 |
| Wu Yong | No | 1 | 1 | 0 | 0 | 0 | No | 0/0 |
| Hong Xianguo | Yes | 9 | 9 | 5 | 1 | 0 | No | 1/5 |
| Zhang Qiusheng | Yes | 9 | 8 | 5 | 0 | 0 | No | 1/5 |
| Xing Min | Yes | 1 | 1 | 0 | 0 | 0 | No | 0/0 |
| Wu Tak Lung | Yes | 1 | 1 | 0 | 0 | 0 | No | 0/0 |
| Liu Yongle | No | 8 | 8 | 5 | 0 | 0 | No | 5/5 |
| Luo Xiwen | Yes | 8 | 8 | 5 | 1 | 0 | No | 0/5 |
| Chan Sau Shan, Gary | Yes | 8 | 7 | 5 | 0 | 1 | No | 0/5 |

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

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

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

There are four special committees under the Board. The Board exercised caution in selecting appropriate candidates, taking into account of each director's professional background and experience and the position requirements set out in the Code of the Stock Exchange. All these committees are chaired by independent non-executive Directors who constitute a majority of each of these committees, thus ensuring the independent and efficient operation of the committees.

During the Reporting Period, the work rules for the Nomination Committee, Remuneration Committee and Audit Committee under the Board were revised pursuant to the new Code of the Stock Exchange and the revised work rules were put into force after having been considered and approved by the Board. Meanwhile, as the term of office of the fifth Board expired, the newly elected sixth Board set up a new session of Board committees.

## (I) Remuneration Committee

In accordance with the provisions of the Listing Rules, the Company has set up the Remuneration Committee consisting of five Directors, the majority of whom being independent non-executive Directors. At the first meeting of the sixth Board, independent non-executive Director Mr. Hong Xianguo was elected as the chairman of the Remuneration Committee, and Mr. Xing Min (independent non-executive Director), Mr. Wu Tak Lung (independent non-executive Director), Ms. Dong Jianhong (non-executive Director) and Mr. Wu Yong (executive Director) were elected as members of the Remuneration Committee.

Mr. Luo Xiwen and Mr. Chan Sau Shan, Gary (both being independent non-executive Directors) retired as members of the Remuneration Committee under the fifth Board as their term of office expired.

# CORPORATE GOVERNANCE *(continued)*

**Duties and operation of the Remuneration Committee**

1. to make recommendations to the Board on the Company's policy and structure for all Directors', Supervisors' and senior management members, the remuneration of non-executive Directors and the remuneration packages of individual executive Directors and senior management members as well as on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve: the management's remuneration proposals; compensation payable to executive Directors and senior management for any loss or termination of office or appointment; and compensation arrangements relating to dismissal or removal of Directors for misconduct;

3. to supervise the implementation of the Company's remuneration policy to ensure that no Director or any of his associates is involved in deciding his own remuneration;

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

During the Reporting Period, two meetings were held by the Remuneration Committee with full attendance, at which all members of the committee were present to consider the Interim Measures on 2012 Remuneration Performance Management and Long-term Incentives for Persons in Charge of First Tractor Company Limited (《第一拖拉機股份有限公司負責人2012年薪酬績效管理及中長期激勵暫行辦法》), the Proposal in relation to the Remuneration of Members of the Sixth Board of Directors and Members of the fifth Board of Supervisors and Proposal in relation to the Remuneration Proposals for the Extended Service of the Directors of the fifth Board of Directors and Supervisors of the fifth Board of Supervisors.

## (II) Nomination Committee

In accordance with the provisions of the Listing Rules, the Company has set up the Nomination Committee consisting of three Directors, the majority of whom being independent non-executive Directors. At the first meeting of the sixth Board, independent non-executive Director Mr. Hong Xianguo was elected as the chairman of the Nomination Committee, and Mr. Xing Min (independent non-executive Director) and Mr. Zhao Yanshui (executive Director) were elected as members of the Nomination Committee.

As his term of office expired, Mr. Luo Xiwen (independent non-executive Director) retired as the chairman of the Nomination Committee under the fifth Board.

**Duties and operation of the Nomination Committee**

1. to review the structure, size and composition of the Board based on the operating activities, asset scale and shareholding structure of the Company and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to study the criteria and procedures for selection of the Directors and managers of the Company and make recommendations to the Board;

3. to select appropriate candidates for Directors, managers and other senior management members of the Company subject to the Board's decision on their employment pursuant to the proposals of the nominating workgroup and to make recommendations to the Board with respect to the candidates for the Directors and managers;

4. to assess the independence of independent Directors; and

5. to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the General Manager.

During the Reporting Period, the Nomination Committee convened two meetings, at which the issues regarding the nomination of candidates for Directors of the sixth session of the Board and managers of the Company were considered respectively. All members of the fifth session of the Nomination Committee under the Board attended the meetings. The Nomination Committee nominated candidates on the basis of, among others, the Company's actual needs and professional qualification, management expertise and experience, diligence and fidelity, as well as level of knowledge, of Directors and senior management members. The Nomination Committee reviewed the resumes of the nominees in order to confirm they comply with the relevant provisions on the qualifications of Directors and managers under the laws and regulations. It also solicited opinions from the nominees and made submission to the Board and general meeting for consideration.

## (III) AUDIT COMMITTEE

As required under the Listing Rules, the Company has set up the Audit Committee with majority members being independent non-executive Directors . The Audit Committee consists of 3 Directors. At the first meeting of the sixth session of the Board, Mr. Zhang Qiusheng (independent non-executive Director) was appointed as the chairman of the Audit Committee, and Mr. Wu Tak Lung (independent non-executive Director) and Mr. Yan Linjiao (non-executive Director) as members. Mr. Zhang Qiusheng, being a Director, is qualified as a Chinese Certified Public Accountant (CCPA) and a Chinese Certified Tax Agent (CCTA). The members of the Audit Committee under the Board are in compliance with the provisions under Rule 3.21 of the Listing Rules.

# CORPORATE GOVERNANCE *(continued)*

As his term of office expired, Mr. Chan Sau Shan, Gary (independent non-executive Director) retired as member of the Audit Committee under the fifth Board.

**Terms of reference and operation of the Audit Committee**

1. to oversee the relationship with the external auditors of the Company, including but not limited to giving advice to the Board on appointment, reappointment and removal of external auditors, approving the audit fee, terms of appointment and policies on non-audit services of external auditors, raising any queries in respect of their resignations or dismissals, and review and monitor the independence and objectivity of the auditors and the effectiveness of audit process;

2. to review the financial reports of the Company as to whether they are in compliance with the accounting standards and relevant requirements in relation to financial reporting under the Listing Rules and other laws;

3. to regulate and review the effectiveness of the internal control system of the Company, the review scope covers the effectiveness and compliance of the Company's internal control system, financial controls, internal audits and risk management systems;

4. to review the Company's financial and accounting policies and practices;

5. to study other topics defined by the Board.

During the Reporting Period, the Audit Committee under the fifth session of the Board convened 2 meetings and all members attended the meetings, at which the Group's 2011 financial report, implementation of the connected transactions during the Reporting Period, appointment and remuneration of the external auditors and 2012 interim financial report were considered respectively. In addition, the Audit Committee reviewed the accounting principles and practices adopted by the Group, discussed matters such as the internal control and financial reports as well as made comments and recommendations in respect thereof to the Board .

The Audit Committee under sixth session of the Board has reviewed the Group's 2012 financial report in accordance with CASBE and HKFRS respectively.

## (IV) STRATEGY & INVESTMENT COMMITTEE

Pursuant to the requirement of the Listing Rules, the Company set up the Strategy & Investment Committee. The Strategy & Investment Committee consists of 5 Directors. The composition of the Strategy & Investment Committee under the fifth session and the sixth session of the Board is as follows: Mr. Zhao Yanshui (Chairman of the Board and executive Director) serves as the chairman, and Mr. Su Weike (Vice Chairman of the Board and non-executive Director) Mr. Yan Linjiao (non-executive Director), Mr. Liu Jiguo (non-executive Director) and Mr. Zhang Qiusheng (independent non-executive Director) as members. At the first meeting of the sixth session of the Board of the Company convened on 20 December 2012, no adjustment as to the composition of the Strategy & Investment Committee was made and the original members still served as members of the Strategy & Investment Committee.

**Terms of reference and operation of the Strategy & Investment Committee**

1. to study the medium and long-term strategic development plans of the Company and make recommendations on the same;

2. to study significant investments, financing proposals and material capital operations which are subject to the approval of the Board as required under the Articles of Association and relevant regulations of the Company and make recommendations on the same;

3. to study significant events which may affect the development of the Company and make recommendations on the same;

4. to inspect implementation of above matters; and

5. other matters as authorized by the Board.

# CORPORATE GOVERNANCE *(continued)*

## V. CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has complied with the principles and most code provisions under the Code on Corporate Governance Practices and Corporate Governance Code in Appendix 14 to the Listing Rules (the "**Code**"), apart from the deviation from Code Provision A.2.1 which sets out that the roles of chairman and chief executive officer should be separate people and should not be performed by the same individual.

### (I) Securities Transactions by Directors

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

### (II) Directors and the Board of Directors

#### 1. Directors

The term of office of Directors of the fifth session of the Board expired in 2012. The Company convened the fourth extraordinary general meeting for 2012 on 20 December 2012, at which the members of the sixth session of the Board were elected. The sixth session of the Board comprises 12 Directors, including executive Directors, namely, Mr. Zhao Yanshui (Chairman and General Manager) and Mr. Wu Yong, six non-executive Directors, namely Mr. Su Weike (Vice Chairman), Mr. Yan Linjiao, Mr. Guo Zhiqiang, Ms. Dong Jianhong, Mr. Qu Dawei, and Mr. Liu Jiguo; and four independent non-executive Directors, namely Mr. Hong Xianguo, Mr. Zhang Qiusheng, Mr. Xing Min and Mr. Wu Tak Lung.

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

# CORPORATE GOVERNANCE *(continued)*

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

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

The Company attaches great importance to the training of Directors, supervisors and senior management members for the purpose of strengthening and standardizing operation, and enhancing corporate governance level of the Company. In 2012, the Company arranged Mr. Hong Xianguo, being an independent non-executive Director, to participate in a training session on the qualifications of independent directors provided by the Shanghai Stock Exchange and obtained the independent director qualification; Mr. Zhao Yanshui, Mr. Su Weike, Mr. Yan Linjiao, Ms. Dong Jianhong and Mr. Qu Dawei, being Directors of the Company, Mr. Wang Jianjun, supervisor of the Company, Mr. Yao Weidong, the chief accountant and Ms. Yu Lina, the secretary to the Board, to participate in the training session for Directors, Supervisors and senior management members of listed companies provided by the CSRC and the Henan Securities Regulatory Bureau.

The Company engaged Citic Securities, Commerce & Finance Law Offices and other intermediaries and professionals to provide training on corporate governance, information disclosure and the Listing Rules to all Directors, Supervisors and senior management members of the Company. The Company has consolidated amendments to the Listing Rules of the Stock Exchange and timely prepared learning and training materials and delivered the same to all Directors, Supervisors and senior management members of the Company and thus strengthened their familiarity and understanding of the corporate governance and the latest amendments of the Listing Rules.

# CORPORATE GOVERNANCE *(continued)*

## 2. The Board of Directors

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

In accordance with the Articles of Association and the rules of procedures for the Board meetings, the Board meetings are divided into regular meetings and extraordinary meetings. Notice was delivered at least 14 days prior to the date of each regular meeting and at least 2 days prior to the date of each extraordinary meeting, and documents containing the meeting agenda were delivered to all Directors before the date of the Board meeting to ensure that all Directors had the opportunity to discuss the matters listed in the agenda.

During the Reporting Period, the Board convened a total of 9 meetings (including the extraordinary meetings of the Board held by way of circulating written resolutions for adoption), including 4 regular meetings.

## (III) Chairman of the Board and General Manager

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

## (IV) Non-Executive Directors (Including Independent Non-Executive Directors)

The terms of office of the non-executive Directors, Mr. Su Weike, Mr. Yan Linjiao, Mr. Guo Zhiqiang, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Liu Jiguo, and those of the independent non-executive Directors, Mr. Hong Xianguo, Mr. Zhang Qiusheng, Mr. Xing Min and Mr. Wu Tak Lung, commenced from 20 December 2012 to 19 December 2015.

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

## (V) AUDITORS' REMUNERATION

Please refer to subsection "Appointment or dismissal of accounting firm" under Section VII headed "Significant Events".

## (VI) INTERNAL CONTROL

Please refer to Section XI headed "Internal Control".

# CORPORATE GOVERNANCE *(continued)*

## (VII) INVESTOR RELATIONS

During the Reporting Period, the Company amended the Articles of Association of the Company: 1. the provision on that the Chairman of the Board and chairperson of the meeting shall be entitled to one additional vote for resolutions proposed in the Board meeting and general meeting is deleted. 2. It is further clarified that subject to ensuring the legitimacy and effectiveness of the general meeting, the Company shall provide convenience to the shareholders to attend the general meeting through various methods and ways, including modern information technologies such as providing network voting platform, etc.; 3. structural arrangement is further made for the dividend distribution policy of the Company.

Upon completion of issue of A shares, the Company enforced and implemented corporate governance documents and management rules including the Management Principles on Use of Proceeds, Management Principles on External Guarantee, Decision Making Principles on Connected Transactions and Decision Making Principles on Investments and Operation in accordance with relevant provisions of the CSRC and the Shanghai Stock Exchange.

The Company continued to enhance its investor relations in strict compliance with the requirements set forth in the Work Guidance for Relations between Listed Companies and Investors and the Management Rules for Information Disclosure of the CSRC and the Rules for the Management of Investor Relation of the Company. Apart from the establishment of dedicated telephone hotlines and mail boxes for investors and analysts to call or mail for inquiries, the Company has also established a special column on the website of the Company and the website of Irasia.com and promptly provides information of the Company to investors.

Though hosting investors for visit, telephone conference, on site management road show, online road show, organizing reverse roadshows with investors, participating in activities including investor forums, the Company maintained good communication with investors. The Company has organized a Q&A session in the general meeting to facilitate the shareholders to understand the Company. The above initiatives enhanced investors' understanding of and support for the Company and increased investors' confidence in the Company.

## (VIII) DESCRIPTION OF THE BOARD OF SUPERVISORS ON THE RISKS IN THE COMPANY

During the Reporting Period, the Board of Supervisors had no disagreement on any supervisory matters. Please refer to Section XII headed "Report of the Board of Supervisors" for the major work of the Board of Supervisors during the Reporting Period.

## (IX) INDEPENDENCE AND COMPLETENESS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER WITH RESPECT TO BUSINESS, PERSONNEL, ASSETS, ORGANISATION AND FINANCE

| | |
|---|---|
| Business | The business of the Company is independent of the controlling shareholder. The supply, production and sale system is independent and complete, and does not rely on the controlling shareholder and all businesses are conducted in a completely independent way. |
| Personnel | The General Manager, Deputy General Manager, financial controller, secretary to the Board and other senior management members do not hold any other positions apart from directors and supervisors in the controlling shareholder; the financial staff of the Company does not concurrently hold positions in the controlling shareholder. |
| Assets | The Company has the production system, ancillary production system and supporting facilities relevant to the production and operation and are independent of the controlling shareholder or other related parties. The Company legally possesses or possesses through leasing (or permit) the ownership or use rights in buildings, land use rights, patents, trademarks and other assets relevant to production and operation. There is no illegal occupation of funds, assets and other resources by the controlling shareholder. |
| Organisation | The Company has established competent internal operation and management divisions and independently exercised its authority in relation to the operation and management. There is no mix of corporate structure with that of the controlling shareholder. |
| Finance | The Company independently makes tax filings and fulfills the obligation of tax payment. There is no mixed tax payment with shareholder companies. The Company has established an independent finance department and accounting system and prepared a financial management system, and is able to independently make financial decisions. |

# CORPORATE GOVERNANCE *(continued)*

## (X) APPRAISAL MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD AND ESTABLISHMENT AND IMPLEMENTATION OF MOTIVATION MECHANISM

The evaluation of the Company's senior management members and incentive mechanisms are discussed and passed by the Remuneration Committee of the Board and submit to the Board for approval. Evaluation of senior management members incentives consists of two parts: the annual remuneration management and medium to long term incentives. The annual remuneration management includes basic salary and bonuses; medium to long term incentives have a cycle of three years and distributions are based on the evaluation results. It is a continuously rolling assessment and is being implemented annually. Evaluation mechanism is mainly comprised of control indicators, prioritized works and the completion results of the operating indicators of division. Evaluation results are reflected in the annual remuneration and medium to long term incentives.

# INTERNAL CONTROL

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

In order to comply with the relevant regulatory requirements, strengthen the management of the Company's internal control and assure a proper and effective internal monitoring and control system, the Company formulated a range of internal control systems and management standards to monitor the overall financial position of the Company and safeguard the Company's assets. The Company's operation process and management process were standardized to ensure that decisions of the Board are in compliance with the laws and regulations and are fully implemented. Regular supervision on risk management was conducted for avoidance of material risks or losses. To implement the Group's development strategies and operating policies, the Company formulated management regulations relating to corporate governance and enhanced management on the subsidiaries of the Company and regulated their behaviours.

The Company has performed its internal supervision functions by various means including internal audit, discipline inspection and supervision, and employee representative union. Meanwhile, it earnestly organized and implemented internal control evaluation in accordance with the requirements on internal control and conducted systematic evaluation on the effectiveness of the design and implementation of the Company's whole system and internal environment, risk assessment, control activities, information and communication, internal supervision, and other aspects relevant to the realization of the overall objectives.

As at the end of the Reporting Period, no material defect was found in the design or implementation of the Group's internal control and the Group will further improve and strengthen the Company's internal control and risk management, and promote the sustainable, sound and steady development of the Group.

The Board, having reviewed the internal monitoring and control systems of the Company and its subsidiaries during the Reporting Period, is of the opinion that the internal control system of the Company was effectively implemented during the Reporting Period which can ensure the achievement of the objectives of the internal control; the internal control system will be continuously revised and improved along with the development of the business, providing a solid foundation for the steady growth of the Company. The Board is satisfied with the overall performance of the internal control . The Audit Committee has been performing its duties and responsibilities, and has reviewed and discussed the internal monitoring and control system of the Company.

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

In order to further enhance the Company's standard operation level, strengthen the authenticity, accuracy, completeness and promptness of information disclosure, and improve the quality and transparency of information disclosure in Annual Report, the Company has formulated the System of Accountability for Significant Mistakes in the Annual Report, which has been considered and approved at the second meeting of the sixth session of the Board of the Company, in accordance with the relevant laws, regulations and regulatory documents including the Company Law, Securities Law and Administrative Measures on Information Disclosure by Listed Companies of the PRC, the listing rules of the Shanghai Stock Exchange and the Listing Rules of the Stock Exchange, as well as the provisions under the Articles of Association and Administrative Measures on Information Disclosure of the Company.

# REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, pursuant to the requirements of the Company Law of the PRC and the Articles of Association and the Rules of Procedure for the Board of Supervisors of the Company, the Board of Supervisors prudently and diligently discharged their supervising duties and responsibilities by actively carrying out oversight within the scope of its duties. During the Reporting Period, the Board of Supervisors held 5 meetings. Supervisors attended or appeared as non-voting members at the general meetings and Board meetings held during the Reporting Period, exercised effective oversight on the Company's business operation, financial status, major decisions, procedure of the general meeting, and had no objection to relevant matters under its supervision. During the Reporting Period, the Board of Supervisors did well in protecting the legal interests of all shareholders and the Company.

## I. MEETINGS OF THE BOARD OF SUPERVISORS IN 2012

During the Reporting Period, the Board of Supervisors held 5 meetings pursuant to the Articles of Association and the Rules of Procedure for the Board of Supervisors of the Company, with details as follows:

(I) At the 8th meeting of the fifth session of the Board of Supervisors on 23 February 2012, it considered and approved the 2011 Report of the Board of Supervisors, 2011 audited financial statements and 2011 profit distribution proposal.

(II) At the 9th meeting of the fifth session of the Board of Supervisors on 24 August 2012, it considered and approved the 2012 Interim Report of the Company and its Summary and the financial report prepared under the HKFRS for the period from January to June, and issued written audit opinions. (Relevant resolution announcements were published on 25 August 2012 on the website of the Shanghai Stock Exchange and in China Securities Journal and Shanghai Securities News.)

(III) At the 10th meeting of the fifth session of the Board of Supervisors on 19 September 2012, it considered and approved the Resolution on Swapping Self-raised Funds for Proceeds Already Invested in Proceeds-financed Projects and the Resolution on Using Temporarily Spare Proceeds to Supplement Working Capital, and expressed independent opinions on the Company's management and utilization of proceeds. (Relevant resolutions announcements were published on 20 September 2012 on the website of the Shanghai Stock Exchange and in China Securities Journal and Shanghai Securities News.)

(IV) At the 11th meeting of the fifth session of the Board of Supervisors on 29 October 2012, it considered and approved the 2012 Third Quarterly Report of the Company, recommended candidates for the sixth session of the Board of Supervisors, and issued written audit opinions. (Relevant resolution announcements were published on 30 October 2012 on the website of the Shanghai Stock Exchange and in China Securities Journal and Shanghai Securities News.)

# REPORT OF THE BOARD OF SUPERVISORS *(continued)*

(V) At the 1st meeting of the sixth session of the Board of Supervisors on 20 December 2012, it elected the chairman of the six session of the Board of Supervisors, and expressed independent opinions on the Company's move to increase capital contribution to YTO Injection Pump and YTO Xinjiang Machinery out of the proceeds. (Relevant resolution announcements were published on 22 December 2012 on the website of the Shanghai Stock Exchange and in China Securities Journal and Shanghai Securities News.)

During the Reporting Period, the Board of Supervisors appeared as non-voting members at all the physical Board meetings.

## II. WORK OF THE BOARD OF SUPERVISORS

### (I) Re-election of the Board of Supervisors

The term of the fifth session of the Board of Supervisors expired on 30 June 2012. According to relevant requirements of the Articles of Association, the Board of Supervisors shall propose the candidates for the sixth session of the Board of Supervisors to the general meeting for consideration and approval via cumulative voting after being determined by the 11th meeting of its fifth session.

### (II) Audit opinions on the financial report and Annual Report of the Company

In 2012, the Company's financial position was sound. The financial report for 2012 prepared in accordance with CASBE and HKFRS were audited by Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong respectively, both of which issued an unqualified audit report. The financial report gives a true and objective view of the Company's financial status and operating results.

The preparation and audit procedure of the Company's 2012 Annual Report is in compliance with laws, regulations, the Articles of Association and internal management systems of the Company. Its contents and format conform with the requirement of CSRC and the Shanghai Stock Exchange. The information contained therein fully reflects the Company's operation, management and financial status in 2012.

The Board of Supervisors is not aware of any breach of confidentiality requirements on the part of the persons involved in the preparation and consideration of the 2012 Annual Report.

# REPORT OF THE BOARD OF SUPERVISORS *(continued)*

## (III) Independent opinions on the lawful operation of the Company

### 1. Connected transactions

During the Reporting Period, connected transactions of the Company are fair and just. They are considered, voted and disclosed in accordance with the requirements. Such transactions were executed with no abnormal conditions and without prejudice to the Company's interests.

### 2. Use of proceeds

During the Reporting Period, the Company launched its initial public offering of 150,000,000 A shares to raise net proceeds of RMB773,733,129 after deducting issuance expenses. The proceeds were deposited in the special account for proceeds. The use and approval procedure of proceeds are in compliance with the Prospectus and the requirements of the regulatory authorities.

### 3. Evaluation Report on Internal Control

The Board of Supervisors reviewed the 2012 Evaluation Report on Internal Control of the Company, raising no objection to the content thereof.

### 4. Supervision of production operation and decision making procedure of the Company

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

### 5. Supervision over the investor relation management of the Company during the Reporting Period

The Board of Supervisors supervised the implementation of the Working Rules on Investor Relationship Management in 2012. In 2012, the Company, on the foundation of information disclosure, communicated with investors through roadshows, general meetings and analyst meetings, which enabled the investors be informed of the operation and management information of the Company, thus helping the investors understand and recognize the Company. We are of the view that the investor relation work of the Company in 2012 was in compliance with the requirements of Working Rules on Investor Relationship Management.

# SUPPLEMENTARY INFORMATION

## FINANCIAL CONGLOMERATE

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

## FINANCIAL BUSINESS

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

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

## KEY RISK MANAGEMENT

### Credit risk

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

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

### Market risk

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

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

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

### Liquidity risk

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

# SUPPLEMENTARY INFORMATION *(continued)*

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

### Compliance risk

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

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

During the Reporting Period, the CBRC Luoyang Branch ("**CBRC Luoyang Branch**") gave the following regulatory comment for YTO Finance: its various indicators are in compliance with regulatory standards and keep improving; it continues to maintain zero non-performing assets and its assets are of high quality; it has adequate capital and strong asset liquidity, with liquidity ratio and excess reserve ratio far exceeding regulatory indicators; in 2012, it has made a provision of RMB19,330,000 against Loan losses, further enhancing its capacity to withstand bad-debt losses.

As at 31 December 2012, YTO Finance's capital adequacy ratio was 26.11%; excess reserve ratio was 36.48%; liquidity ratio was 31.77%; self-owned fixed assets investment ratio was 0.56%; investment ratio was 60.24%; loan-loss reserve adequacy ratio exceeded 100%; non-performing loan ratio was 0; and distressed assets ratio was 0. All the above ratios were in compliance with the requirements of regulations and supervision of CBRC.

## PUBLIC FLOAT

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

## TAX CONCESSIONS

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

# INDEPENDENT AUDITOR'S REPORT

BAKER TILLY
HONG KONG | 天職香港

**TO THE SHAREHOLDERS OF FIRST TRACTOR COMPANY LIMITED**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of First Tractor Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 111 to 264, which comprise the consolidated and company's statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

# INDEPENDENT AUDITOR'S REPORT *(continued)*

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BAKER TILLY HONG KONG LIMITED**
*Certified Public Accountants*

Andrew David Ross
Practising Certificate Number P01183

Hong Kong, 27 March 2013

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2012*

| | Note | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **Revenue** | 6 | **11,317,998** | 11,702,673 |
| Cost of sales | | **(9,775,220)** | (10,042,301) |
| Gross profit | | **1,542,778** | 1,660,372 |
| Other income and gains | 6 | **105,180** | 76,404 |
| Selling and distribution costs | | **(348,929)** | (364,367) |
| Administrative expenses | | **(744,217)** | (712,775) |
| Other operating expenses, net | | **(8,527)** | (8,342) |
| Finance costs | 7 | **(62,733)** | (54,162) |
| Share of profits of associates | | **1,629** | 2,099 |
| **Profit before income tax** | 8 | **485,181** | 599,229 |
| Income tax expense | 11 | **(70,701)** | (84,937) |
| **Profit for the year** | | **414,480** | 514,292 |
| **Profit attributable to:** | | | |
| Owners of the Company | 12 | **349,058** | 440,051 |
| Non-controlling interests | | **65,422** | 74,241 |
| | | **414,480** | 514,292 |
| **Dividends** | 13 | **99,590** | — |
| **Earnings per share attributable to owners of the Company** | | | |
| Basic and diluted | 14 | **RMB38.96 cents** | RMB52.02 cents |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | 2012<br>*RMB'000* | 2011<br>*RMB'000*<br>(Restated) |
|---|---|---|
| **Profit for the year** | **414,480** | 514,292 |
| **Other comprehensive income/(expense):** | | |
| Currency translation differences | **(2,412)** | (16,820) |
| Fair value gain/(loss) on available-for-sale financial assets, net of tax | **2,557** | (65,947) |
| **Other comprehensive income/(expense) for the year, net of tax** | **145** | (82,767) |
| **Total comprehensive income for the year** | **414,625** | 431,525 |
| **Attributable to:** | | |
| Owners of the Company | **349,724** | 361,882 |
| Non-controlling interests | **64,901** | 69,643 |
| **Total comprehensive income for the year** | **414,625** | 431,525 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | Note | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* | *RMB'000* |
| | | | (Restated) | (Restated) |
| **Non-current assets** | | | | |
| Property, plant and equipment | 15 | **2,414,122** | 2,168,402 | 1,920,889 |
| Investment properties | 16 | **32,511** | 33,861 | 35,302 |
| Prepaid operating leases | 17 | **757,715** | 695,853 | 208,385 |
| Intangible assets | 18 | **63,685** | 61,631 | — |
| Interests in associates | 20 | **7,810** | 19,815 | 20,449 |
| Available-for-sale financial assets | 21 | **159,450** | 179,350 | 289,465 |
| Loan receivables | 22 | **45,653** | 34,302 | 44,858 |
| Deferred income tax assets | 36 | **64,585** | 46,667 | 38,825 |
| Total non-current assets | | **3,545,531** | 3,239,881 | 2,558,173 |
| **Current assets** | | | | |
| Inventories | 23 | **1,363,535** | 1,195,451 | 1,426,598 |
| Trade and bill receivables | 24 | **2,268,990** | 2,445,949 | 1,595,045 |
| Available-for-sale financial assets | 21 | **—** | 23,360 | — |
| Loan receivables | 22 | **839,171** | 631,793 | 478,481 |
| Prepayments, deposits and other receivables | 25 | **736,631** | 612,408 | 782,170 |
| Income tax recoverable | | **8,621** | 6,251 | 3,251 |
| Financial assets at fair value through profit or loss | 26 | **306,801** | 77,398 | 251,994 |
| Held-to-maturity financial assets | 27 | **52,090** | — | 1,000 |
| Placements with banks and non-bank financial institutions | | **—** | — | 350,000 |
| Pledged bank deposits | 28 | **132,693** | 145,748 | 209,389 |
| Cash and cash equivalents | 28 | **1,825,339** | 1,394,695 | 1,183,559 |
| Total current assets | | **7,533,871** | 6,533,053 | 6,281,487 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

*As at 31 December 2012*

| | Note | **2012** **RMB'000** | 2011 RMB'000 (Restated) | 2010 RMB'000 (Restated) |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Trade and bill payables | 29 | **2,548,365** | 2,344,853 | 2,146,089 |
| Other payables and accruals | 30 | **821,184** | 810,139 | 989,545 |
| Customer deposits | 31 | **1,110,287** | 1,058,420 | 472,167 |
| Repurchase agreements | | **—** | — | 99,500 |
| Placements from banks and non-bank financial institutions | 32 | **360,000** | 200,000 | 100,000 |
| Borrowings | 33 | **451,241** | 969,468 | 425,726 |
| Current income tax liabilities | | **30,297** | 37,885 | 29,850 |
| Provisions | 34 | **40,535** | 43,839 | 69,405 |
| **Total current liabilities** | | **5,361,909** | 5,464,604 | 4,332,282 |
| **Net current assets** | | **2,171,962** | 1,068,449 | 1,949,205 |
| **Total assets less current liabilities** | | **5,717,493** | 4,308,330 | 4,507,378 |
| **Non-current liabilities** | | | | |
| Borrowings | 33 | **617,500** | 186,000 | 600,000 |
| Deferred income | 35 | **161,440** | 111,728 | 106,748 |
| Deferred income tax liabilities | 36 | **15,209** | 15,130 | 27,062 |
| Provisions | 34 | **31,460** | 43,004 | 77,348 |
| Total non-current liabilities | | **825,609** | 355,862 | 811,158 |
| **Net assets** | | **4,891,884** | 3,952,468 | 3,696,220 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

*As at 31 December 2012*

| | Note | 2012 RMB'000 | 2011 RMB'000 (Restated) | 2010 RMB'000 (Restated) |
|---|---|---|---|---|
| **Equity** | | | | |
| **Attributable to owners of the Company** | | | | |
| Share capital | 37 | **995,900** | 845,900 | 845,900 |
| Reserves | 38(a) | **3,270,906** | 2,568,669 | 2,316,541 |
| Proposed final dividend | 13 | **99,590** | — | 67,672 |
| | | **4,366,396** | 3,414,569 | 3,230,113 |
| **Non-controlling interests** | | **525,488** | 537,899 | 466,107 |
| **Total equity** | | **4,891,884** | 3,952,468 | 3,696,220 |

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

Approved by the board of directors on 27 March 2013.

**Zhao Yanshui**
*Director*

**Liu Jiguo**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2012*

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Issued capital** | **Share premium** | **Capital reserve** | **Statutory surplus reserve** | **General surplus reserve** | **General and statutory fund** | **Available-for-sale financial assets reserve** | **Exchange reserve** | **Retained earnings** | **Proposed final dividend** | **Total** | **Non-controlling interests** | **Total equity** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note* | *Note 37* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | | | | | | | |
| **Balance at 1 January 2011** | | | | | | | | | | | | | | |
| As previously reported | | 845,900 | 1,539,938 | (2,261) | 159,510 | 64,744 | 5,868 | 63,593 | (10,337) | 417,153 | 67,672 | 3,151,780 | 392,248 | 3,544,028 |
| Business combination under common control | 2.1(a) | – | – | 15,417 | 8,056 | – | – | – | – | 54,860 | – | 78,333 | 73,859 | 152,192 |
| As restated | | 845,900 | 1,539,938 | 13,156 | 167,566 | 64,744 | 5,868 | 63,593 | (10,337) | 472,013 | 67,672 | 3,230,113 | 466,107 | 3,696,220 |
| **Comprehensive income** | | | | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | – | – | 440,051 | – | 440,051 | 74,241 | 514,292 |
| **Other comprehensive expense** | | | | | | | | | | | | | | |
| Currency translation differences | | – | – | – | – | – | – | – | (15,097) | – | – | (15,097) | (1,723) | (16,820) |
| Fair value loss on available-for-sale financial assets, net of tax | | – | – | – | – | – | – | (63,072) | – | – | – | (63,072) | (2,875) | (65,947) |
| **Total other comprehensive expense, net of tax** | | – | – | – | – | – | – | (63,072) | (15,097) | – | – | (78,169) | (4,598) | (82,767) |
| **Total comprehensive (expense)/income for the year** | | – | – | – | – | – | – | (63,072) | (15,097) | 440,051 | – | 361,882 | 69,643 | 431,525 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

*For the year ended 31 December 2012*

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital *RMB'000* *Note 37* | Share premium *RMB'000* *Note 38(a)* | Capital reserve *RMB'000* *Note 38(a)* | Statutory surplus reserve *RMB'000* *Note 38(a)* | General surplus reserve *RMB'000* *Note 38(a)* | General and statutory fund *RMB'000* *Note 38(a)* | Available-for-sale financial assets reserve *RMB'000* | Exchange reserve *RMB'000* | Retained earnings *RMB'000* | Proposed final dividend *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Contributions by and distributions to owners of the Company recognised directly in equity** | | | | | | | | | | | | | | |
| Acquisition of additional interest in subsidiaries | 39(b) | — | — | (5,384) | — | — | — | — | — | — | — | (5,384) | 4,337 | (1,047) |
| Business combination under common control | 41(b) | — | — | (90,606) | — | — | — | — | — | — | — | (90,606) | — | (90,606) |
| Contribution from non-controlling interest of a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | 6,600 | 6,600 |
| Disposal of part interests in subsidiaries to non-controlling shareholders | | — | — | 2,732 | — | — | — | — | — | — | — | 2,732 | 23,268 | 26,000 |
| Dividends paid to non-controlling shareholders of a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | (22,256) | (22,256) |
| Dividends paid to former shareholders of a subsidiary related to business combination under common control | | — | — | — | — | — | — | — | — | (16,496) | — | (16,496) | — | (16,496) |
| Deregistration of a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | (9,800) | (9,800) |
| Final 2010 dividend declared | | — | — | — | — | — | — | — | — | — | (67,672) | (67,672) | — | (67,672) |
| Transfers from/(to) reserves | 38(a) | — | — | — | 27,472 | — | 423 | — | — | (27,895) | — | — | — | — |
| **Total contributions by and distributions to owners of the Company recognised directly in equity** | | — | — | (93,258) | 27,472 | — | 423 | — | — | (44,391) | (67,672) | (177,426) | 2,149 | (175,277) |
| **Balance at 31 December 2011 (Restated)** | | 845,900 | 1,539,938* | (80,102)* | 195,038* | 64,744* | 6,291* | 521* | (25,434)* | 867,673* | — | 3,414,569 | 537,899 | 3,952,468 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

*For the year ended 31 December 2012*

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital | Share premium | Capital reserve | Statutory surplus reserve | General surplus reserve | General and statutory fund | Available-for-sale financial assets reserve | Exchange reserve | Retained earnings | Proposed final dividend | Total | Non-controlling interests | Total equity |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *Note 37* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | | | | | | | |
| **Balance at 1 January 2012** | | | | | | | | | | | | | | |
| As previously reported | | 845,900 | 1,539,938 | (95,519) | 186,982 | 64,744 | 6,291 | 521 | (25,434) | 800,077 | — | 3,323,500 | 452,088 | 3,775,588 |
| Business combination under common control | 2.1(a) | — | — | 15,417 | 8,056 | — | — | — | — | 67,596 | — | 91,069 | 85,811 | 176,880 |
| As restated | | 845,900 | 1,539,938 | (80,102) | 195,038 | 64,744 | 6,291 | 521 | (25,434) | 867,673 | — | 3,414,569 | 537,899 | 3,952,468 |
| **Comprehensive income** | | | | | | | | | | | | | | |
| Profit for the year | | — | — | — | — | — | — | — | — | 349,058 | — | 349,058 | 65,422 | 414,480 |
| **Other comprehensive income/(expense)** | | | | | | | | | | | | | | |
| Currency translation differences | | — | — | — | — | — | — | — | (2,010) | — | — | (2,010) | (402) | (2,412) |
| Fair value gain/(loss) on available-for-sale financial assets, net of tax | | — | — | — | — | — | — | 2,676 | — | — | — | 2,676 | (119) | 2,557 |
| **Total other comprehensive income/(expense), net of tax** | | — | — | — | — | — | — | 2,676 | (2,010) | — | — | 666 | (521) | 145 |
| **Total comprehensive income/ (expense) for the year** | | — | — | — | — | — | — | 2,676 | (2,010) | 349,058 | — | 349,724 | 64,901 | 414,625 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

*For the year ended 31 December 2012*

| | Note | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Share premium | Capital reserve | Statutory surplus reserve | General surplus reserve | General and statutory fund | Available-for-sale financial assets reserve | Exchange reserve | Retained earnings | Proposed final dividend | Total | Non-controlling interests | Total equity |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note* | *Note 37* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | *Note 38(a)* | | | | | | | |
| **Contributions by and distributions to owners of the Company recognised directly in equity** | | | | | | | | | | | | | | |
| Acquisition of additional interests in subsidiaries | 39(a) | – | – | 86,143 | – | – | – | – | – | – | – | 86,143 | (90,767) | (4,624) |
| Business combination under common control | 41(a) | – | – | (98,511) | – | – | – | – | – | – | – | (98,511) | – | (98,511) |
| Contribution from non-controlling interest of a subsidiary | | – | – | – | – | – | – | – | – | – | – | – | 91,840 | 91,840 |
| Dividends paid to non-controlling shareholders of a subsidiary | | – | – | – | – | – | – | – | – | – | – | – | (78,385) | (78,385) |
| Dividends paid to former shareholders of a subsidiary related to business combination under common control | | – | – | – | – | – | – | – | – | (159,262) | – | (159,262) | – | (159,262) |
| Proposal final 2012 dividend | 13 | – | – | – | – | – | – | – | – | (99,590) | 99,590 | – | – | – |
| Issue of shares | | 150,000 | 623,733 | – | – | – | – | – | – | – | – | 773,733 | – | 773,733 |
| Transfers from/(to) reserves | 38(a) | – | – | – | 43,096 | – | 279 | – | – | (43,375) | – | – | – | – |
| **Total contributions by and distributions to owners of the Company recognised directly in equity** | | **150,000** | **623,733** | **(12,368)** | **43,096** | **–** | **279** | **–** | **–** | **(302,227)** | **99,590** | **602,103** | **(77,312)** | **524,791** |
| **Balance at 31 December 2012** | | **995,900** | **2,163,671*** | **(92,470)*** | **238,134*** | **64,744*** | **6,570*** | **3,197*** | **(27,444)*** | **914,504*** | **99,590** | **4,366,396** | **525,488** | **4,891,884** |

* These reserve accounts comprise the consolidated reserves of approximately RMB3,270,906,000 (2011: approximately RMB2,568,669,000).

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2012*

| | Note | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | **485,181** | 599,229 |
| Adjustments for: | | | |
| Finance costs | 7 | **62,733** | 54,162 |
| Share of profits of associates | | **(1,629)** | (2,099) |
| Bank interest income | 6, 8 | **(5,898)** | (5,312) |
| Loss/(gain) on disposal of property, plant and equipment, net | 6, 8 | **780** | (4,827) |
| Gain on bargain purchase | 6, 8, 40(b) | **—** | (2,693) |
| Depreciation of:- | | | |
| Property, plant and equipment | 8, 15 | **172,728** | 136,593 |
| Investment properties | 8, 16 | **1,350** | 1,441 |
| Amortisation of:- | | | |
| Prepaid operating leases | 8, 17 | **17,036** | 8,748 |
| Intangible assets | 8, 18 | **8** | 11 |
| Dividend income from listed investments | 6, 8 | **(2,510)** | (1,831) |
| Dividend income from unlisted investments | 6, 8 | **(30,672)** | (7,710) |
| Gain on disposal of available-for-sale financial assets, net | 6, 8 | **(4,236)** | (35,973) |
| Gain on disposal of financial assets at fair value through profit or loss, net | 6, 8 | **(11,827)** | (8,790) |
| Provision for impairment of loan receivables, net | 8, 22 | **2,409** | 2,954 |
| Provision for/(reversal of) impairment of inventories, net | 8, 23 | **12,650** | (6,526) |
| (Reversal of)/provision for impairment of trade receivables, net | 8, 24 | **(5,212)** | 219 |
| Provision for impairment of other receivables, net | 8, 25 | **6,020** | 1,433 |
| Recognition of government grants | 6, 35 | **(34,152)** | (10,689) |
| Fair value (gain)/loss on financial assets at fair value through profit or loss, net | 6, 8 | **(3,460)** | 11,769 |
| Fair value gain on remeasurement of interests in associates | 6, 8 | **(938)** | (123) |
| Operating cash flows before changes in working capital | | **660,361** | 729,986 |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

*For the year ended 31 December 2012*

| | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|
| (Increase)/decrease in inventories | **(176,332)** | 245,498 |
| Decrease/(increase) in trade and bill receivables | **189,859** | (846,539) |
| Increase in loan receivables | **(221,138)** | (145,710) |
| (Increase)/decrease in prepayments, deposits and other receivables | **(129,348)** | 165,147 |
| (Increase)/decrease in financial assets at fair value through profit or loss | **(214,116)** | 171,617 |
| Decrease in placements with bank and non-bank financial institutions | **—** | 350,000 |
| Increase in mandatory reserve deposits with the People's Bank of China | **(938)** | (12,298) |
| Increase in trade and bill payables | **197,889** | 193,486 |
| Increase/(decrease) in other payables and accruals | **136,301** | (329,571) |
| Increase in customer deposits | **51,867** | 586,253 |
| Decrease in repurchase agreements | **—** | (99,500) |
| Increase in placements from bank and non-bank financial institutions | **160,000** | 100,000 |
| Increase/(decrease) in bills discounted payables | **8,253** | (251,781) |
| Decrease in provisions | **(14,848)** | (59,910) |
| **Cash generated from operations** | **647,810** | 796,678 |
| Interest received | **5,898** | 5,312 |
| Income tax paid | **(98,575)** | (82,506) |
| **Net cash generated from operating activities** | **555,133** | 719,484 |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

*For the year ended 31 December 2012*

| | Note | 2012 RMB'000 | 2011 RMB'000 (Restated) |
|---|---|---|---|
| **Investing activities** | | | |
| Dividend received from listed investments | 6, 8 | **2,510** | 1,831 |
| Dividend received from unlisted investments | 6, 8 | **30,672** | 7,710 |
| Purchase of property, plant and equipment | 15 | **(442,337)** | (433,672) |
| Proceeds from disposal of property, plant and equipment | | **6,380** | 18,926 |
| Purchase of prepaid operating leases | 17 | **(76,143)** | (298,312) |
| Purchase of intangible assets | 18 | **(1,984)** | (61,642) |
| Purchase of available-for-sale financial assets | | **(980)** | (31,144) |
| Proceeds from disposal of available-for-sale financial assets | | **51,112** | 71,152 |
| Purchase of held-to-maturity financial assets | | **(52,090)** | (312,290) |
| Receipt from the maturity of held-to-maturity financial assets | | **—** | 316,757 |
| Receipt of government grants | 35 | **83,864** | 15,669 |
| Dividends paid to former shareholders of a deregistered subsidiary | | **—** | (9,800) |
| Dividend received from associates | | **729** | 602 |
| Proceeds from disposal of part interests in subsidiaries to non- controlling shareholders | | **—** | (2,732) |
| Business combination of acquisition of a subsidiary under common control | 41, 2.1(a) | **(329,055)** | (90,559) |
| Acquisition of additional interest in a subsidiary | 39 | **(4,624)** | (1,047) |
| Acquisition of subsidiaries | 40 | **(15,523)** | (1,726) |
| **Net cash used in investing activities** | | **(747,469)** | (810,277) |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

*For the year ended 31 December 2012*

| | Note | 2012<br>RMB'000 | 2011<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid | | **(82,661)** | (54,774) |
| Proceeds from borrowings | | **1,383,366** | 1,986,860 |
| Repayments of borrowings | | **(1,482,497)** | (1,600,542) |
| Contributions from non-controlling shareholders of subsidiaries | | **91,840** | 6,600 |
| Proceeds from issue of shares | 37 | **810,000** | — |
| Shares issue expenses | | **(36,267)** | — |
| Dividends paid to shareholders of the Company | | **—** | (67,672) |
| Dividends paid to non-controlling shareholders | | **(54,085)** | (22,256) |
| Dividends paid to former shareholders of business combinations under common control | | **(21,859)** | (16,496) |
| **Net cash generated from financing activities** | | **607,837** | 231,720 |
| **Net increase in cash and cash equivalents** | | **415,501** | 140,927 |
| Effect of exchange rate changes, net | | **1,150** | (5,730) |
| Cash and cash equivalents at beginning of year | | **1,374,838** | 1,239,641 |
| **Cash and cash equivalents at end of year** | 28 | **1,791,489** | 1,374,838 |

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

# STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **1,375,737** | 1,312,169 |
| Prepaid operating leases | 17 | **441,205** | 451,000 |
| Intangible assets | 18 | **59,526** | 57,542 |
| Interests in subsidiaries | 19 | **2,093,672** | 1,464,811 |
| Interests in associates | 20 | **—** | 12,000 |
| Available-for-sale financial assets | 21 | **45,852** | 40,824 |
| Deferred income tax assets | 36 | **6,790** | 9,033 |
| Total non-current assets | | **4,022,782** | 3,347,379 |
| **Current assets** | | | |
| Inventories | 23 | **343,290** | 441,013 |
| Trade and bill receivables | 24 | **1,712,762** | 1,673,740 |
| Available-for-sale financial assets | 21 | **—** | 23,360 |
| Prepayments, deposits and other receivables | 25 | **517,974** | 364,435 |
| Loans to subsidiaries | 19 | **107,000** | 100,000 |
| Deposits placed with a subsidiary | 19 | **548,484** | 575,245 |
| Pledged bank deposits | 28 | **87,256** | 97,100 |
| Cash and cash equivalents | 28 | **411,815** | 50,081 |
| Total current assets | | **3,728,581** | 3,324,974 |

# STATEMENT OF FINANCIAL POSITION *(continued)*

*As at 31 December 2012*

| | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and bill payables | 29 | **1,647,550** | 1,680,510 |
| Other payables and accruals | 30 | **194,908** | 365,577 |
| Borrowings | 33 | **886,041** | 1,278,467 |
| Current income tax liabilities | | **18,815** | 24,109 |
| Provisions | 34 | **20,258** | 18,413 |
| Total current liabilities | | **2,767,572** | 3,367,076 |
| **Net current assets/(liabilities)** | | **961,009** | (42,102) |
| **Total assets less current liabilities** | | **4,983,791** | 3,305,277 |
| **Non-current liabilities** | | | |
| Borrowings | 33 | **617,500** | 186,000 |
| Deferred income | 35 | **140,932** | 91,016 |
| Deferred income tax liabilities | 36 | **4,169** | 3,562 |
| Provisions | 34 | **24,080** | 36,715 |
| Total non-current liabilities | | **786,681** | 317,293 |
| **Net assets** | | **4,197,110** | 2,987,984 |
| **Equity** | | | |
| Share capital | 37 | **995,900** | 845,900 |
| Reserves | 38(b) | **3,101,620** | 2,142,084 |
| Proposed final dividend | 13 | **99,590** | — |
| **Total equity** | | **4,197,110** | 2,987,984 |

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

Approved by the board of directors on 27 March 2013.

**Zhao Yanshui**
*Director*

**Liu Jiguo**
*Director*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2012*

## 1. GENERAL INFORMATION

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

The Company is engaged in investment holding, manufacture and sale of agricultural machinery. The principal activities of its subsidiaries are set out in Note 19. Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group". During the year, the Group is engaged in the following principal activities, mainly in the PRC:

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group, and all values are rounded to the nearest thousand unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2013.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale financial assets, and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

### (a) Business Combination under Common Control

In accordance with the Equity Transfer agreements entered into between the Company and the Holding Company on 14 November 2012, the Company acquired a 100% equity interest in YTO (Luoyang) Flag Auto-Body Co., Ltd. ("YTO Flag") and YTO (Luoyang) Drive Axle Co., Ltd. ("YTO Axle") from the Holding Company for considerations of approximately RMB158,789,000 and approximately RMB224,618,000, respectively. The acquisitions of YTO Flag and YTO Axle were completed on 31 December 2012 and have been accounted for as combination of businesses under common control since the Directors consider that the companies, YTO Flag and YTO Axle are under common control of the Holding Company. As at 31 December 2011, the Holding Company held 51.39% of the equity interest and subsequently acquired an additional 48.61% equity interest on 31 July 2012 in YTO Flag. Upon the completion of this further acquisition, YTO Flag became a wholly owned subsidiary of the Holding Company. Please refer to Note 39(a)(iii) for details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.1 Basis of preparation *(Continued)*

**(a) Business Combination under Common Control *(Continued)***

The aforementioned acquisitions of subsidiaries from the Holding Company have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. As a result, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the prior years have been restated to include the operating results and cash flows of YTO Flag and YTO Axle. The consolidated statements of financial position as at 31 December 2011 and at 1 January 2011 have been restated to include the assets and liabilities of YTO Flag and YTO Axle. Respective notes to the consolidated financial statements have also been restated. All significant intra-group transactions, balances, income and expenses are eliminated on combination. The impact of the restatements is set out below in Note 41.

**(b) Changes in accounting policy and disclosure**

New and amended standards adopted by the Group:

In the current year, the Group has applied the following new and revised HKFRSs, Amendments to HKFRSs and Interpretations issued by the HKICPA (the "new and revised HKFRSs").

| | |
|---|---|
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKFRS 7 (Amendments) | Disclosures — Transfers of Financial Assets |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets |

The adoption of these new and revised standards and amendments has no significant impact on the Group's financial statements.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.1 Basis of preparation *(Continued)*

### (b) Changes in accounting policy and disclosure *(Continued)*

The Group has not early applied the following new standards, amendments and interpretations to standards that have been issued but are yet effective for the financial year beginning after 1 January 2012, which are relevant to the Group:

| | |
|---|---|
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| HKAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities[3] |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2009 - 2011 Cycle, except for the amendments HKAS 12 |
| HKFRS 1 (Amendments) | Government Loans[2] |
| HKFRS 7 (Amendments) | Disclosures - Offsetting Financial Assets and Financial Liabilities[2] |
| HKFRS 7 and HKFRS 9 (Amendments) | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance[2] |
| HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[3] |

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.2 Consolidation

### (a) Business combination

#### (i) Merger accounting for common control combinations

The consolidated financial statements of the Group has been accounted for as a combination of business under common control by applying the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA. In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period are presented in the year in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party. Accordingly, the consolidated financial statements of the Group have been prepared as if the acquired companies have always been subsidiaries of the Group.

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised for goodwill or excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting dates or when they first came under common control, whichever is shorter.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.2 Consolidation *(Continued)*

### (a) Business combination *(Continued)*

#### (i) Merger accounting for common control combinations *(Continued)*

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

#### (ii) Purchase method of accounting for non-common control combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, other than the common control combinations (Note 2.2(a)(i)). The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

### (b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.2 Consolidation *(Continued)*

#### (b) Subsidiaries *(Continued)*

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Acquisition-related costs are expensed as incurred.

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.2 Consolidation *(Continued)*

### (b) Subsidiaries *(Continued)*

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less impairment (Note 2.10). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### (c) Transactions with non-controlling interests

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

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

#### (ii) Disposal of subsidiaries

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.2 Consolidation *(Continued)*

### (d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.3 Segment reporting

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

## 2.4 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional, and the Group's presentation, currency.

### (b) Transactions and balances

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

All foreign exchange gains and losses are presented in the consolidated income statement within 'Other operating expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as available-for-sale financial assets are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.4 Foreign currency translation *(Continued)*

**(c) Group companies**

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.5 Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

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

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.5 Property, plant and equipment and depreciation *(Continued)*

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

### 2.6 Prepaid operating leases

Upfront prepayments made for the prepaid lease payments and leasehold land are initially recognised in the consolidated statement of financial position as prepaid operating leases and are expensed in the consolidated income statement on a straight line basis over the periods of the respective leases.

### 2.7 Intangible assets

#### (a) Trademarks and licenses

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

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

#### (b) Other intangible assets

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.8 Investment properties

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

## 2.9 Research and development costs

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.10 Impairment of investments in subsidiaries, associates and non-financial assets

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

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiary or associate in the period the dividends are declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.11 Financial assets

#### (a) Categorisation

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.11 Financial assets *(Continued)*

### (a) Categorisation *(Continued)*

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

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

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.11 Financial assets *(Continued)*

### (a) Categorisation *(Continued)*

#### (ii) Loans and receivables

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

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

#### (iii) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the consolidated income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

#### (iv) Available-for-sale financial assets

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.11 Financial assets *(Continued)*

### (b) Recognition and measurement

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statements as other income and gains.

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.12 Offsetting financial instruments

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

## 2.13 Impairment of financial assets

**(a) Assets carried at amortised cost**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.13 Impairment of financial assets *(Continued)*

### (a) Assets carried at amortised cost *(Continued)*

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

### (b) Assets classified as available-for-sale

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

## 2.14 Repurchase agreements

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.15 Inventories

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

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

### 2.16 Trade receivables and other receivables

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

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

### 2.17 Cash and cash equivalents

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.18 Trade payables and other payables

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

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

### 2.19 Borrowings

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

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

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

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.20 Provisions

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

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

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

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

## 2.21 Current and deferred income tax

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

### (a) Current income tax

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.21 Current and deferred income tax *(Continued)*

### (b) Deferred income tax

**Inside basis differences**

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

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

**Outside basis differences**

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

### (c) Offsetting

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

### 2.23 Financial guarantee contracts

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

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

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

### 2.24 Share capital

Ordinary shares are classified as equity.

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.25 Employee benefits

**(a) Pension obligations**

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

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

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

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

**(c) Termination benefits**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.26 Revenue recognition

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

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

(a) Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) Research and development income is recognised in the period in which services were rendered;

(c) Rental income is recognised on a time proportion basis over the lease terms;

(d) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) Fee and commission income is recognised when the transaction is completed or on the accrual basis when the service is provided over a period of time. These mainly include fee and commission income on the settlement and clearing business; and

(f) Dividend income is recognised when the shareholders' right to receive payment has been established.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.27 Government grants

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

As explained in Note 35, certain government grants obtained are treated as deferred income in the consolidated and the Company's statements of financial position and credited to the other comprehensive income in accordance with conditions set by the government body.

## 2.28 Borrowing costs

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

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

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

## 2.29 Leases

**(a) The Group as lessor**

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

**(b) The Group as lessee**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.30 Dividends

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

### 2.31 Related parties

**(a) A person, or a close member of that person's family, is related to the Group if that person:**

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a); and

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

## 2.32 Comparatives

Certain comparative figures have been reclassified to conform with the current year's presentation.

# 3. FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

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

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

### (a) Market risk

#### (i) Foreign exchange risk

The business of the Group is principally located in the PRC. As most of the transactions are in RMB, the Group does not have significant exposure to foreign currency risk. As at 31 December 2012, the Group had short term deposits denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Euro ("EUR") of approximately RMB28,697,000 (2011: approximately RMB27,938,000 (restated)), approximately RMB49,699,000 (2011: approximately RMB RMB28,913,000 (restated)) and approximately RMB51,839,000 (2011: approximately RMB RMB11,955,000 (restated)) (Note 28), respectively. The Group does not use derivative financial instruments to hedge its foreign currency risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

#### (a) Market risk *(Continued)*

##### (i) Foreign exchange risk *(Continued)*

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

**Group**

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

| | Exchange rates of HKD, USD and EUR increase/ (decrease) | Increase/ (decrease) in profit before income tax |
|---|---|---|
| | | *RMB'000* |
| | % | *(Restated)* |
| **2011** | | |
| If RMB strengthens against HKD, USD and EUR | (5) | (3,440) |
| If RMB weakens against HKD, USD and EUR | 5 | 3,440 |

# 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

## 3.1 Financial risk factors *(Continued)*

### (a) Market risk *(Continued)*

#### (ii) Price risk

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

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

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

| | **31 December 2012** | **High/low 2012** | 31 December 2011 | High/low 2011 |
|---|---|---|---|---|
| Hong Kong Exchange | | | | |
| — Hang Seng Index | **22,657** | **22,718/18,056** | 18,434 | 24,469/16,170 |
| Shanghai Stock Exchange | | | | |
| — SSE Composite Index | **2,269** | **2,461/1,960** | 2,199 | 3,067/2,134 |
| Shenzhen Stock Exchange | | | | |
| — SZSE Component Index | **9,116** | **10,613/7,711** | 8,919 | 13,233/8,555 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

#### (a) Market risk *(Continued)*

##### (ii) Price risk *(Continued)*

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

**Group**

| | Impact on pre-tax profit | | Impact on other components of equity | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Hang Seng Index | **379** | 283 | **—** | — |
| SSE Composite Index | **393** | 5,145 | **7,438** | 4,036 |
| SZSE Component Index | **123** | 1,198 | **404** | 5,895 |

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

##### (iii) Interest rate risk

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

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

# 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

## 3.1 Financial risk factors *(Continued)*

### (a) Market risk *(Continued)*

#### (iii) Interest rate risk *(Continued)*

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

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

| | Group | |
|---|---|---|
| | Increase in basis points | Profit before income tax increase/ (decrease) |
| | | *RMB'000* |
| **Year ended 31 December 2012** | **+100** | **14,983** |
| Year ended 31 December 2011 (restated) | +100 | 8,361 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

**(a) Market risk *(Continued)***

**(iii) Interest rate risk *(Continued)***

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **Interest rate** | Interest rate |
| | **%** | % |
| | | (Restated) |
| **Assets** | | |
| Loan receivables | **4.2–7.2** | 4.67–5.08 |
| Cash and cash equivalents/pledged bank deposits | **0.4–3.5** | 0.5–5.5 |
| **Liabilities** | | |
| Customer deposits | **0.39–3.5** | 0.51–3.31 |
| Placements from banks and non-bank financial institutions | **4.02–4.17** | 4.58–5.53 |
| Borrowings | **2.5–7.91** | 1.88–7.35 |

**(b) Credit risk**

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

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

# 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

## 3.1 Financial risk factors *(Continued)*

### (b) Credit risk *(Continued)*

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

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

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a finance loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 43.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

#### (c) Liquidity risk

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

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the end of the reporting period, the Group held cash and cash equivalents of approximately RMB1,825,339,000 (2011: approximately RMB1,394,695,000 (restated)) (Note 28), and trade and bill receivables of approximately RMB2,268,990,000 (2011: approximately RMB2,445,949,000 (restated)) (Note 24) that are expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds listed equity securities for trading of approximately RMB10,801,000 (2011: approximately RMB10,848,000 (restated)) (Note 26), which could be readily realised to provide a further source of cash should the need arise.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

**(c) Liquidity risk *(Continued)***

**Group**

| **2012** | **Within one year or repayable on demand** *RMB'000* | **One to two years** *RMB'000* | **Two to three years** *RMB'000* | **Three to five years** *RMB'000* | **Total undiscounted cash flow** *RMB'000* | **Carrying amount** *RMB'000* |
|---|---|---|---|---|---|---|
| Borrowings | **493,758** | **445,719** | **178,085** | **37,854** | **1,155,416** | **1,068,741** |
| Trade and bill payables | **2,548,365** | **—** | **—** | **—** | **2,548,365** | **2,548,365** |
| Other payables and accruals | **592,466** | **—** | **—** | **—** | **592,466** | **592,466** |
| Customer deposits | **1,110,287** | **—** | **—** | **—** | **1,110,287** | **1,110,287** |
| Placements from banks and non-bank financial institutions | **360,000** | **—** | **—** | **—** | **360,000** | **360,000** |
| | **5,104,876** | **445,719** | **178,085** | **37,854** | **5,766,534** | **5,679,859** |

**Group**

| 2011 | Within one year or repayable on demand *RMB'000* (Restated) | One to two years *RMB'000* (Restated) | Two to three years *RMB'000* (Restated) | Three to five years *RMB'000* (Restated) | Total undiscounted cash flow *RMB'000* (Restated) | Carrying amount *RMB'000* (Restated) |
|---|---|---|---|---|---|---|
| Borrowings | 1,014,611 | 57,110 | 57,110 | 106,656 | 1,235,487 | 1,155,468 |
| Trade and bill payables | 2,344,853 | — | — | — | 2,344,853 | 2,344,853 |
| Other payables and accruals | 535,878 | — | — | — | 535,878 | 535,878 |
| Customer deposits | 1,058,420 | — | — | — | 1,058,420 | 1,058,420 |
| Placements from banks and non-bank financial institutions | 200,000 | — | — | — | 200,000 | 200,000 |
| | 5,153,762 | 57,110 | 57,110 | 106,656 | 5,374,638 | 5,294,619 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(Continued)*

**(c) Liquidity risk *(Continued)***

**Company**

| **2012** | **Within one year or repayable on demand** *RMB'000* | **One to two years** *RMB'000* | **Two to three years** *RMB'000* | **Three to five years** *RMB'000* | **Total undiscounted cash flow** *RMB'000* | **Carrying amount** *RMB'000* |
|---|---|---|---|---|---|---|
| Borrowings | **938,537** | **445,719** | **178,085** | **37,854** | **1,600,195** | **1,503,541** |
| Trade and bill payables | **1,647,550** | **—** | **—** | **—** | **1,647,550** | **1,647,550** |
| Other payables and accruals | **151,960** | **—** | **—** | **—** | **151,960** | **151,960** |
| | **2,738,047** | **445,719** | **178,085** | **37,854** | **3,399,705** | **3,303,051** |

**Company**

| 2011 | Within one year or repayable on demand *RMB'000* | One to two years *RMB'000* | Two to three years *RMB'000* | Three to five years *RMB'000* | Total undiscounted cash flow *RMB'000* | Carrying amount *RMB'000* |
|---|---|---|---|---|---|---|
| Borrowings | 1,323,886 | 57,110 | 57,110 | 106,656 | 1,544,762 | 1,464,467 |
| Trade and bill payables | 1,680,510 | — | — | — | 1,680,510 | 1,680,510 |
| Other payables and accruals | 306,721 | — | — | — | 306,721 | 306,721 |
| | 3,311,117 | 57,110 | 57,110 | 106,656 | 3,531,993 | 3,451,698 |

# 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

## 3.2 Capital management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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

**Group**

| | **2012**<br>***RMB'000*** | 2011<br>*RMB'000*<br>(Restated) |
|---|---|---|
| Borrowings | **1,068,741** | 1,155,468 |
| Trade and bill payables | **2,548,365** | 2,344,853 |
| Other payables and accruals | **821,184** | 810,139 |
| Customer deposits | **1,110,287** | 1,058,420 |
| Placements from banks and non-bank financial institutions | **360,000** | 200,000 |
| Less : Cash and cash equivalents and pledged bank deposits | **(1,958,032)** | (1,540,443) |
| Net debt | **3,950,545** | 4,028,437 |
| Total equity (excluding non-controlling interests) | **4,366,396** | 3,414,569 |
| Total equity and net debt | **8,316,941** | 7,443,006 |
| Gearing ratio | **47%** | 54% |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.3 Fair value estimation

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

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

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

| **2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | **306,801** | **—** | **—** | **306,801** |
| Held-to-maturity financial assets | **52,090** | **—** | **—** | **52,090** |
| Available-for-sale financial assets | **78,426** | **—** | **81,024** | **159,450** |
| Total assets | **437,317** | **—** | **81,024** | **518,341** |

| 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | 77,398 | — | — | 77,398 |
| Available-for-sale financial assets | 99,306 | — | 103,404 | 202,710 |
| Total assets | 176,704 | — | 103,404 | 280,108 |

# 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

## 3.3 Fair value estimation *(Continued)*

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.3 Fair value estimation *(Continued)*

The movements in level 3 instruments at the year ended 31 December 2012 are as follows:

| | Available-for-sale financial assets | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Opening balance | **103,404** | 102,984 |
| Additions | **980** | 420 |
| Disposals | **(23,360)** | — |
| Closing balance | **81,024** | 103,404 |
| Total gains for the year including in profit or loss for assets held at the end of the reporting period | **10,598** | — |

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

# 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(CONTINUED)*

## Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2012 was approximately RMB 2,414,122,000 (2011: approximately RMB2,168,402,000 (restated)). More details are given in Note 15.

## Impairment of trade and bill receivables

The policy for impairment of trade and bill receivables of the Group is based on the evaluation of the collectability and aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each of the end of the reporting period. The carrying amount of trade and bill receivables at 31 December 2012 was approximately RMB2,268,990,000 (2011: approximately RMB2,445,949,000 (restated)). More details are given in Note 24.

## Provision for obsolete inventories

Management reviews the condition of the inventories of the Group and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each of the end of the reporting period and makes provision for obsolete items. Management reassesses the estimation at each of the end of the reporting period. The carrying amount of inventories at 31 December 2012 was approximately RMB1,363,535,000 (2011: approximately RMB1,195,451,000 (restated)). More details are given in Note 23.

## Provision for product warranties

Provision for product warranties is estimated based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Factors considered in the estimation include the unit rate charged by repair centers, the number of units of products and components already sold which may require repairs and maintenance, and miscellaneous expenditure which may be incurred. The carrying amount of provision for product warranties at 31 December 2012 was approximately RMB21,366,000 (2011: approximately RMB22,123,000 (restated)). More details are given in Note 34.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

# 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(CONTINUED)*

### Provision for early retirement benefits

The benefits of early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of such early retirees, discounted to their present values as appropriate. The carrying amount of provision for early retirement benefits at 31 December 2012 was approximately RMB50,629,000 (2011: approximately RMB64,720,000 (restated)). More details are given in Note 34.

### Income tax

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

### Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred income tax assets at 31 December 2012 was approximately RMB64,585,000 (2011: approximately RMB46,667,000 (restated)). More details are given in Note 36.

### Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2012, impairment losses of approximately RMB2,123,000 (2011: approximately RMB2,123,000(restated)) have been recognised for available-for-sale financial assets. The carrying amount of available-for-sale financial assets at 31 December 2012 was approximately RMB159,450,000 (2011: approximately RMB202,710,000 (restated)). More details are given in Note 21.

# 5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

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

(a) the "agricultural machinery" segment engages in the research and development, manufacture and sale of agricultural machinery, including tractors, relevant parts and components;

(b) the "power machinery" segment engages in the manufacture and sale of diesel engines, fuel injection pumps and fuel jets;

(c) the "other machinery" segment engages in the manufacture and sale of forklifts, mining trucks and other machinery; and

(d) the "financial operation" segment engages in the provision of loans, bills discounting and deposit-taking services.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

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

| | Agricultural machinery *RMB'000* | Power machinery *RMB'000* | Other machinery *RMB'000* | Financial operation *RMB'000* | Unallocated adjustments/ eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| **Revenue:** | | | | | | |
| Sales to external customers | 9,616,653 | 1,224,001 | 384,975 | 92,369 | — | 11,317,998 |
| Intersegment sales *(Note)* | 499,109 | 780,944 | 62,174 | 18,507 | (1,360,734) | — |
| | 10,115,762 | 2,004,945 | 447,149 | 110,876 | (1,360,734) | 11,317,998 |
| Interest, dividend and investment income | | | | | 59,541 | |
| Corporate expenses, net | | | | | (10,841) | |
| Finance costs | | | | | (62,733) | |
| Share of profits of associates | | | | | 1,629 | |
| Profit/(loss) before income tax | 355,782 | 89,983 | (9,989) | 61,809 | (12,404) | 485,181 |
| Income tax expense | | | | | | (70,701) |
| **Profit for the year** | | | | | | 414,480 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

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

| | Agricultural machinery *RMB'000* | Power machinery *RMB'000* | Other machinery *RMB'000* | Financial operation *RMB'000* | Unallocated adjustments/ eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Other segment information:** | | | | | | |
| Capital expenditure | **436,878** | **38,218** | **8,204** | **60** | **—** | **483,360** |
| Depreciation of property, plant and equipment | **132,105** | **37,412** | **2,952** | **259** | **—** | **172,728** |
| Depreciation of investment properties | **1,350** | **—** | **—** | **—** | **—** | **1,350** |
| Amortisation of prepaid operating leases | **14,701** | **1,759** | **562** | **14** | **—** | **17,036** |
| Amortisation of intangible assets | **8** | **—** | **—** | **—** | **—** | **8** |
| Provision for product warranties | **51,247** | **45,315** | **5,903** | **—** | **—** | **102,465** |
| (Reversal of)/ provision for impairment of trade receivables, net | **(7,750)** | **547** | **1,991** | **—** | **—** | **(5,212)** |
| Provision for/(reversal of) impairment of other receivables, net | **5,862** | **(79)** | **237** | **—** | **—** | **6,020** |
| Provision for/(reversal of) impairment of inventories, net | **12,443** | **(391)** | **598** | **—** | **—** | **12,650** |
| Provision for impairment of loan receivables, net | **—** | **—** | **—** | **2,409** | **—** | **2,409** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

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

| | Agricultural machinery *RMB'000* | Power machinery *RMB'000* | Other machinery *RMB'000* | Financial operation *RMB'000* | Unallocated adjustments/ eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | |
| **Assets** | | | | | | |
| Segment assets | **7,051,242** | **1,599,775** | **399,856** | **2,985,108** | **(1,624,478)** | **10,411,503** |
| Interests in associates | | | | | | **7,810** |
| Unallocated assets | | | | | | **660,089** |
| Total consolidated assets | | | | | | **11,079,402** |
| **Liabilities** | | | | | | |
| Segment liabilities | **2,815,371** | **952,677** | **207,429** | **2,677,355** | **(1,624,478)** | **5,028,354** |
| Unallocated liabilities | | | | | | **1,159,164** |
| Total consolidated liabilities | | | | | | **6,187,518** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011.

| | Agricultural machinery *RMB'000* (Restated) | Power machinery *RMB'000* (Restated) | Other machinery *RMB'000* (Restated) | Financial operation *RMB'000* (Restated) | Unallocated adjustments/ eliminations *RMB'000* (Restated) | Total *RMB'000* (Restated) |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| **Revenue:** | | | | | | |
| Sales to external customers | 9,731,567 | 1,470,155 | 436,128 | 64,823 | — | 11,702,673 |
| Intersegment sales *(Note)* | 524,132 | 740,907 | 58,344 | 29,934 | (1,353,317) | — |
| | 10,255,699 | 2,211,062 | 494,472 | 94,757 | (1,353,317) | 11,702,673 |
| Interest, dividend and investment income | | | | | 50,663 | |
| Corporate income, net | | | | | 1,988 | |
| Finance costs | | | | | (54,162) | |
| Share of profits of associates | | | | | 2,099 | |
| Profit/(loss)before income tax | 359,931 | 191,227 | (6,314) | 53,797 | 588 | 599,229 |
| Income tax expense | | | | | | (84,937) |
| **Profit for the year** | | | | | | 514,292 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011. *(Continued)*

| | Agricultural machinery *RMB'000* (Restated) | Power machinery *RMB'000* (Restated) | Other machinery *RMB'000* (Restated) | Financial operation *RMB'000* (Restated) | Unallocated adjustments/ eliminations *RMB'000* (Restated) | Total *RMB'000* (Restated) |
|---|---|---|---|---|---|---|
| **Other segment information:** | | | | | | |
| Capital expenditure | 846,384 | 80,793 | 2,285 | 227 | — | 929,689 |
| Depreciation of property, plant and equipment | 96,643 | 36,750 | 2,923 | 277 | — | 136,593 |
| Depreciation of investment properties | 1,441 | — | — | — | — | 1,441 |
| Amortisation of prepaid operating leases | 7,457 | 774 | 503 | 14 | — | 8,748 |
| Amortisation of intangible assets | 11 | — | — | — | — | 11 |
| Provision for product warranties | 66,736 | 43,430 | 2,975 | — | — | 113,141 |
| Provision for/(reversal of) impairment of trade receivables, net | 5,016 | (6,661) | 1,864 | — | — | 219 |
| Provision for/(reversal of) impairment of other receivables, net | 1,354 | 238 | (159) | — | — | 1,433 |
| (Reversal of)/provision for impairment of inventories, net | (8,385) | 1,799 | 60 | — | — | (6,526) |
| Provision for impairment of loan receivables, net | — | — | — | 2,954 | — | 2,954 |

## 5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011. *(Continued)*

| | Agricultural machinery *RMB'000* (Restated) | Power machinery *RMB'000* (Restated) | Other machinery *RMB'000* (Restated) | Financial operation *RMB'000* (Restated) | Unallocated adjustments/ eliminations *RMB'000* (Restated) | Total *RMB'000* (Restated) |
|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | |
| **Assets** | | | | | | |
| Segment assets | 6,775,815 | 1,461,046 | 367,317 | 2,682,192 | (1,919,714) | 9,366,656 |
| Interests in associates | | | | | | 19,815 |
| Unallocated assets | | | | | | 386,463 |
| Total consolidated assets | | | | | | 9,772,934 |
| **Liabilities** | | | | | | |
| Segment liabilities | 3,247,983 | 703,402 | 323,287 | 2,204,854 | (1,919,714) | 4,559,812 |
| Unallocated liabilities | | | | | | 1,260,654 |
| Total consolidated liabilities | | | | | | 5,820,466 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Earnings before interest, tax, depreciation and amortisation of business segments | **688,707** | 745,434 |
| Depreciation of property, plant and equipment | **(172,728)** | (136,593) |
| Depreciation of investment properties | **(1,350)** | (1,441) |
| Amortisation of prepaid operating leases | **(17,036)** | (8,748) |
| Amortisation of intangible assets | **(8)** | (11) |
| Corporate (expenses)/income, net | **(10,841)** | 1,988 |
| Operating profit | **486,744** | 600,629 |
| Interest, dividend and investment income | **59,541** | 50,663 |
| Finance costs | **(62,733)** | (54,162) |
| Share of profits of associates | **1,629** | 2,099 |
| **Profit before income tax** | **485,181** | 599,229 |

# 5. SEGMENT INFORMATION *(CONTINUED)*

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

Segment assets are summarised as below:

| | **2012**<br>***RMB'000*** | 2011<br>*RMB'000*<br>(Restated) |
|---|---|---|
| Segment assets as allocated by business segments | **10,411,503** | 9,366,656 |
| Unallocated assets: | | |
| Available-for-sale financial assets | **159,450** | 202,710 |
| Deferred income tax assets | **64,585** | 46,667 |
| Financial assets at fair value through profit or loss | **306,801** | 77,398 |
| Interests in associates | **7,810** | 19,815 |
| Others | **129,253** | 59,688 |
| **Total assets as per consolidated statement of financial position** | **11,079,402** | 9,772,934 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 5. SEGMENT INFORMATION *(CONTINUED)*

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

Segment liabilities are summarised as below:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Segment liabilities as allocated by business segments | **5,028,354** | 4,559,812 |
| Unallocated liabilities: | | |
| Borrowings | **1,068,741** | 1,155,468 |
| Deferred income tax liabilities | **15,209** | 15,130 |
| Provisions | **71,995** | 86,843 |
| Others | **3,219** | 3,213 |
| **Total liabilities as per consolidated statement of financial position** | **6,187,518** | 5,820,466 |

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

# 6. REVENUE, OTHER INCOME AND GAINS

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

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

| | *Note* | **2012**<br>***RMB'000*** | 2011<br>*RMB'000*<br>(Restated) |
|---|---|---|---|
| **Revenue** | | | |
| Sales of goods | | **11,226,015** | 11,638,098 |
| Fee and commission income from financial operation | 8 | **4,689** | 4,975 |
| Interest income from financial operation on: | | | |
| Loans and advances to customers | 8 | **71,847** | 42,709 |
| Finance lease obligations | 8 | **4,674** | 9,929 |
| Due from central bank, other banks and financial institutions | 8 | **10,773** | 6,962 |
| | | **11,317,998** | 11,702,673 |
| **Other income** | | | |
| Bank interest income | 8 | **5,898** | 5,312 |
| Dividend income from listed investments | 8 | **2,510** | 1,831 |
| Dividend income from unlisted investments | 8 | **30,672** | 7,710 |
| Government grants | 35 | **34,152** | 10,689 |
| Others | | **10,810** | 9,846 |
| | | **84,042** | 35,388 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 6. REVENUE, OTHER INCOME AND GAINS *(CONTINUED)*

| | *Note* | **2012** **RMB'000** | 2011 *RMB'000* (Restated) |
|---|---|---|---|
| **Other gains** | | | |
| Fair value gain/(loss) on financial assets at fair value through profit or loss, net | 8 | **3,460** | (11,769) |
| Fair value gain on remeasurement of interests in associates | 8 | **938** | 123 |
| Gain on bargain purchase | 8, 40(b) | **—** | 2,693 |
| Gain on disposal of available-for-sale financial assets, net | 8 | **4,236** | 35,973 |
| Gain on disposal of financial assets at fair value through profit or loss, net | 8 | **11,827** | 8,790 |
| (Loss)/gain on disposal of property, plant and equipment, net | 8 | **(780)** | 4,827 |
| Write-off of other payables | 8 | **1,457** | 379 |
| | | **21,138** | 41,016 |
| | | **105,180** | 76,404 |

## 7. FINANCE COSTS

| | **2012** **RMB'000** | 2011 *RMB'000* (Restated) |
|---|---|---|
| Interest on bank and other borrowings wholly repayable within 5 years | **83,786** | 62,549 |
| Less: Interest capitalised into construction in progress | **(21,053)** | (8,387) |
| | **62,733** | 54,162 |

Finance costs on funds borrowed generally are capitalised at a rate ranging from 6.37% to 6.9% (2011: 6.13%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 8. PROFIT BEFORE INCOME TAX

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

| | *Note* | **2012**<br>***RMB'000*** | 2011<br>*RMB'000*<br>(Restated) |
|---|---|---|---|
| Amortisation of prepaid operating leases | 17 | **17,036** | 8,748 |
| Amortisation of intangible assets | 18 | **8** | 11 |
| Auditors' remuneration | | **3,221** | 4,675 |
| Bank interest income | 6 | **(5,898)** | (5,312) |
| Cost of inventories sold*** | 23 | **9,750,951** | 10,029,459 |
| Depreciation of property, plant and equipment | 15 | **172,728** | 136,593 |
| Depreciation of investment properties | 16 | **1,350** | 1,441 |
| Dividend income from listed investments | 6 | **(2,510)** | (1,831) |
| Dividend income from unlisted investments | 6 | **(30,672)** | (7,710) |
| Employee benefits expenses (excluding directors' and supervisors' remuneration — Note 9): | | | |
| Wages and salaries | | **816,434** | 641,342 |
| Pension scheme contributions** | | **134,458** | 97,330 |
| Provision/(reversal of) for early retirement benefits | 34 | **12,155** | (10,871) |
| | | **963,047** | 727,801 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 8. PROFIT BEFORE INCOME TAX *(CONTINUED)*

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

| | *Note* | **2012** **_RMB'000_** | 2011 *RMB'000* (Restated) |
|---|---|---|---|
| Fair value (gain)/loss on financial assets at fair value through profit or loss, net | 6 | **(3,460)** | 11,769 |
| Fair value gain on remeasurement of interests in associates | 6 | **(938)** | (123) |
| Fee and commission income from financial operation | 6 | **(4,689)** | (4,975) |
| Fee and commission expenses from financial operation | | **337** | 222 |
| Foreign exchange differences, net* | | **2,223** | (1,952) |
| Gain on disposal of available-for-sale financial assets, net | 6 | **(4,236)** | (35,973) |
| Gain on disposal of financial assets at fair value through profit or loss, net | 6 | **(11,827)** | (8,790) |
| Loss/(gain) on disposal of property, plant and equipment, net* | 6 | **780** | (4,827) |
| Gain on bargain purchase | 6,40(b) | **—** | (2,693) |
| Gross rental income | 15 | **(7,687)** | (7,707) |
| Interest income from financial operation on: | | | |
| Loans and advances to customers | 6 | **(71,847)** | (42,709) |
| Finance lease obligations | 6 | **(4,674)** | (9,929) |
| Due from central bank, other banks and financial institutions | 6 | **(10,773)** | (6,962) |
| Interest expenses from financial operation | | **11,283** | 19,399 |
| Minimum lease payments under operating leases of land and building, and plant and machinery | | **11,462** | 13,012 |
| Provision for product warranties | 34 | **102,465** | 113,141 |
| Provision for impairment of loan receivables, net* | 22 | **2,409** | 2,954 |
| Provision for/(reversal of) impairment of inventories, net | 23 | **12,650** | (6,526) |
| (Reversal of)/provision for impairment of trade receivables, net* | 24 | **(5,212)** | 219 |
| Provision for impairment of other receivables, net* | 25 | **6,020** | 1,433 |
| Research and development costs | | **403,640** | 383,108 |
| Write-off of other payables | 6 | **(1,457)** | (379) |

## 8. PROFIT BEFORE INCOME TAX *(CONTINUED)*

* These expenses are included in the consolidated income statement under "other operating expenses".

** At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

*** Depreciation, direct labour costs and manufacturing overhead expenses were included.

## 9. REMUNERATION OF DIRECTORS AND SUPERVISORS

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees | **264** | 255 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,246** | 1,589 |
| Performance related bonuses | **—** | — |
| Pension scheme contributions | **240** | 238 |
| | **1,486** | 1,827 |
| | **1,750** | 2,082 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 9. REMUNERATION OF DIRECTORS AND SUPERVISORS *(CONTINUED)*

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

## 9. REMUNERATION OF DIRECTORS AND SUPERVISORS *(CONTINUED)*

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

(a) Resigned on 29 January 2012

(b) Resigned on 19 December 2012

(c) Appointed on 20 December 2012

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 9. REMUNERATION OF DIRECTORS AND SUPERVISORS *(CONTINUED)*

| | Fees | Salaries, allowances and benefits | Performance related bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2011** | | | | | |
| **Executive and non-executive directors:** | | | | | |
| Mr. Liu Yongle | — | 80 | — | 16 | 96 |
| Mr. Qu Dawei | — | 80 | — | 16 | 96 |
| Mr. Li Youji (a) | — | — | — | — | — |
| Mr. Li Xibin (b) | — | 34 | — | 9 | 43 |
| Ms. Dong Jianhong | — | 80 | — | 16 | 96 |
| Mr. Zhao Yanshui | — | 120 | — | 24 | 144 |
| Mr. Su Weike (a) | — | — | — | — | — |
| Mr. Yan Linjiao | — | 80 | — | 16 | 96 |
| Mr. Liu Jiguo (a) | — | 511 | — | 38 | 549 |
| Mr. Shao Haichen (b) | — | — | — | — | — |
| | — | 985 | — | 135 | 1,120 |
| **Independent non-executive directors:** | | | | | |
| Mr. Hong Xianguo | 66 | — | — | — | 66 |
| Mr. Chan Sau Shan, Gary | 62 | — | — | — | 62 |
| Mr. Luo Xiwen | 64 | — | — | — | 64 |
| Mr. Zhang Qiusheng | 63 | — | — | — | 63 |
| | 255 | — | — | — | 255 |

## 9. REMUNERATION OF DIRECTORS AND SUPERVISORS *(CONTINUED)*

| | Fees | Salaries, allowances and benefits | Performance related bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Supervisors:** | | | | | |
| Ms. Yi Liwen | — | 60 | — | 12 | 72 |
| Mr. Wang Yong | — | 46 | — | — | 46 |
| Mr. Huang Ping | — | 44 | — | — | 44 |
| Mr. Shao Jianxin | — | 165 | — | 33 | 198 |
| Mr. Zheng Luyu | — | 80 | — | 16 | 96 |
| Mr. Wang Jianjun | — | 209 | — | 42 | 251 |
| | — | 604 | — | 103 | 707 |
| | 255 | 1,589 | — | 238 | 2,082 |

(a) Appointed on 17 June 2011

(b) Resigned on 25 March 2011

In 2011, except for Mr. Su Weike and Mr. Li Youji, there was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year. Mr. Su Weike and Mr. Li Youji agreed to waive all remuneration in August and September 2011, respectively.

## 10. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include one (2011: two) director whose emoluments is reflected in the analysis presented in Note 9. The emoluments payable to the remaining four (2011: three) individuals during the year are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and benefits in kind | **1,694** | 1,389 |
| Performance related bonuses | **—** | — |
| Pension scheme contributions | **338** | 278 |
| | **2,032** | 1,667 |

One of the highest paid employees (2011: Two) for the year is a director of the Company, details of whose remuneration are set out in Note 9 above.

The remuneration of the four (2011: three) non-director, highest paid employees fell within the band of Nil to RMB1,000,000.

## 11. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Current — PRC corporate income tax | | |
| Charge for the year | **88,295** | 86,643 |
| Adjustments in respect of prior years | **559** | 863 |
| Deferred income tax *(Note 36)* | **(18,153)** | (2,569) |
| Total income tax charge for the year | **70,701** | 84,937 |

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25% (2011: 15% to 25%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices.

## 11. INCOME TAX EXPENSE *(CONTINUED)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2012 and 2011.

Profits tax of the subsidiaries operating outside the PRC is subject to the rates applicable within the jurisdiction in which it operates. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2011: Nil).

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

| | Group | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | ***RMB'000*** | **%** | *RMB'000* | % |
| | | | (Restated) | |
| Profit before income tax | **485,181** | | 599,229 | |
| Tax at the PRC statutory tax rate of 25% (2011: 25%) | **121,295** | **25** | 149,807 | 25 |
| Entities subject to lower income tax rates for specific provinces or enacted by local authorities | **(48,569)** | **(10)** | (58,882) | (10) |
| Adjustments in respect of current tax of previous periods | **559** | **—** | 863 | — |
| Profits attributable to associates | **(257)** | **—** | (48) | — |
| Income not subject to tax | **(35,517)** | **(7)** | (58,213) | (10) |
| Expenses not tax deductible to tax | **9,164** | **2** | 29,006 | 5 |
| Tax losses utilised | **(8,867)** | **(2)** | (2,295) | — |
| Unrecognised tax losses | **32,893** | **7** | 27,488 | 4 |
| Others | **—** | **—** | (2,789) | — |
| Income tax expense at the Group's effective rate | **70,701** | **15** | 84,937 | 14 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 11. INCOME TAX EXPENSE *(CONTINUED)*

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| **Current tax** | **—** | — |
| **Deferred tax** | | |
| Arising on income and expenses recognised in other comprehensive income: | | |
| Fair value changes of available-for-sale financial assets *(Note 36)* | **314** | (17,205) |
| Total income tax charged/(credited) to other comprehensive income | **314** | (17,205) |

## 12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2012 which has been dealt with in the financial statements of the Company is approximately RMB431,952,000 (2011: approximately RMB274,423,000) (Note 38(b)).

## 13. DIVIDENDS

No dividends was paid in 2012. The dividends paid in 2011 was RMB67,672,000 (RMB0.08 per share).

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend, proposed, of RMB10 cents (2011: Nil) per ordinary share *(Note 38(b))* | **99,590** | — |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting standards; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed (i.e. Hong Kong Financial Reporting Standards).

# 14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB349,058,000 (2011: approximately RMB440,051,000 (restated)) and the weighted average number of 895,900,000 (2011: 845,900,000) ordinary shares in issue during the year.

No diluting events occurred during the years ended 31 December 2012 and 2011.

The calculation of basic earnings per share is based on:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic earnings per share calculation | **349,058** | 440,051 |

| | **2012** | 2011 |
|---|---|---|
| | **Number of shares** | Number of shares |
| | ***(thousand)*** | *(thousand)* |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year | **895,900** | 845,900 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 15. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Freehold land, outside the PRC *RMB'000* (Restated) | Buildings *RMB'000* (Restated) | Plant, machinery and equipment *RMB'000* (Restated) | Transportation vehicles and equipment *RMB'000* (Restated) | Construction in progress *RMB'000* (Restated) | Total *RMB'000* (Restated) |
|---|---|---|---|---|---|---|
| **At 1 January 2011, as restated** | | | | | | |
| Cost | — | 1,034,436 | 1,848,000 | 46,194 | 705,274 | 3,633,904 |
| Accumulated depreciation and impairment | — | (510,011) | (1,179,196) | (15,429) | (8,379) | (1,713,015) |
| Net book amount | — | 524,425 | 668,804 | 30,765 | 696,895 | 1,920,889 |
| **Year ended 31 December 2011** | | | | | | |
| Opening net book amount | | | | | | |
| — As previously reported | — | 520,078 | 628,626 | 28,486 | 653,361 | 1,830,551 |
| — Business combination under common control | — | 4,347 | 40,178 | 2,279 | 43,534 | 90,338 |
| — As restated | — | 524,425 | 668,804 | 30,765 | 696,895 | 1,920,889 |
| Additions | 8,971 | 34,456 | 25,363 | 2,064 | 349,069 | 419,923 |
| Transfers in/(out) | — | 65,214 | 234,509 | 5,828 | (305,551) | — |
| Transferred to prepaid operating leases *(Note 17)* | — | — | — | — | (22,092) | (22,092) |
| Disposals | — | (7,998) | (4,819) | (1,282) | — | (14,099) |
| Acquisitions of subsidiaries *(Note 40)* | — | — | 126 | 248 | — | 374 |
| Depreciation charged for the year *(Note 8)* | — | (28,098) | (104,525) | (3,970) | — | (136,593) |
| Closing net book amount | 8,971 | 587,999 | 819,458 | 33,653 | 718,321 | 2,168,402 |
| **At 31 December 2011, as restated** | | | | | | |
| Cost | 8,971 | 1,150,604 | 1,997,512 | 51,600 | 726,700 | 3,935,387 |
| Accumulated depreciation and impairment | — | (562,605) | (1,178,054) | (17,947) | (8,379) | (1,766,985) |
| Net book amount | 8,971 | 587,999 | 819,458 | 33,653 | 718,321 | 2,168,402 |

# 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

**Group *(Continued)***

| | Freehold land, outside the PRC | Buildings | Plant, machinery and equipment | Transportation vehicles and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2012,as restated** | | | | | | |
| Cost | 8,971 | 1,150,604 | 1,997,512 | 51,600 | 726,700 | 3,935,387 |
| Accumulated depreciation and impairment | — | (562,605) | (1,178,054) | (17,947) | (8,379) | (1,766,985) |
| Net book amount | 8,971 | 587,999 | 819,458 | 33,653 | 718,321 | 2,168,402 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | | | | | | |
| — As previously reported | 8,971 | 583,183 | 743,951 | 31,179 | 696,311 | 2,063,595 |
| — Business combination under common control | — | 4,816 | 75,507 | 2,474 | 22,010 | 104,807 |
| — As restated | 8,971 | 587,999 | 819,458 | 33,653 | 718,321 | 2,168,402 |
| Additions | — | 54,324 | 58,235 | 21,700 | 270,974 | 405,233 |
| Transfers in/(out) | — | 94,882 | 348,727 | 5,793 | (449,402) | — |
| Transferred to prepaid operating leases *(Note 17)* | — | — | — | — | (2,755) | (2,755) |
| Disposals | — | (1,704) | (4,627) | (829) | — | (7,160) |
| Acquisition of a subsidiary *(Note 40)* | — | — | 22,637 | 36 | — | 22,673 |
| Depreciation charged for the year *(Note 8)* | — | (29,867) | (135,095) | (7,766) | — | (172,728) |
| Exchange realignment | 172 | 7 | 272 | 6 | — | 457 |
| Closing net book amount | 9,143 | 705,641 | 1,109,607 | 52,593 | 537,138 | 2,414,122 |
| **At 31 December 2012** | | | | | | |
| Cost | 9,143 | 1,293,895 | 2,371,284 | 93,106 | 545,517 | 4,312,945 |
| Accumulated depreciation and impairment | — | (588,254) | (1,261,677) | (40,513) | (8,379) | (1,898,823) |
| Net book amount | 9,143 | 705,641 | 1,109,607 | 52,593 | 537,138 | 2,414,122 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

**Company**

| | Buildings | Plant, machinery and equipment | Transportation vehicles and equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2011** | | | | | |
| Cost | 647,791 | 1,117,631 | 12,485 | 462,578 | 2,240,485 |
| Accumulated depreciation and impairment | (388,833) | (715,507) | (6,447) | (8,379) | (1,119,166) |
| Net book amount | 258,958 | 402,124 | 6,038 | 454,199 | 1,121,319 |
| **Year ended 31 December 2011** | | | | | |
| Opening net book amount | 258,958 | 402,124 | 6,038 | 454,199 | 1,121,319 |
| Additions | 33,594 | 3,387 | 538 | 235,090 | 272,609 |
| Transfers in/(out) | 64,468 | 145,330 | 4,916 | (214,714) | — |
| Disposals | (1,386) | (2,986) | (425) | — | (4,797) |
| Depreciation charged for the year | (19,105) | (56,377) | (1,480) | — | (76,962) |
| Closing net book amount | 336,529 | 491,478 | 9,587 | 474,575 | 1,312,169 |
| **At 31 December 2011** | | | | | |
| Cost | 749,506 | 1,228,981 | 16,128 | 482,954 | 2,477,569 |
| Accumulated depreciation and impairment | (412,977) | (737,503) | (6,541) | (8,379) | (1,165,400) |
| Net book amount | 336,529 | 491,478 | 9,587 | 474,575 | 1,312,169 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

**Company *(Continued)***

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2012** | | | | | |
| Cost | 749,506 | 1,228,981 | 16,128 | 482,954 | 2,477,569 |
| Accumulated depreciation and impairment | (412,977) | (737,503) | (6,541) | (8,379) | (1,165,400) |
| Net book amount | 336,529 | 491,478 | 9,587 | 474,575 | 1,312,169 |
| **Year ended 31 December 2012** | | | | | |
| Opening net book amount | 336,529 | 491,478 | 9,587 | 474,575 | 1,312,169 |
| Additions | 72 | 2,443 | 662 | 178,496 | 181,673 |
| Transfers in/(out) | 98,569 | 248,942 | 22,242 | (369,753) | — |
| Transferred to prepaid operating leases *(Note 17)* | — | — | — | (2,755) | (2,755) |
| Disposals | (1,646) | (19,471) | (333) | — | (21,450) |
| Depreciation charged for the year | (20,088) | (69,252) | (4,560) | — | (93,900) |
| Closing net book amount | 413,436 | 654,140 | 27,598 | 280,563 | 1,375,737 |
| **At 31 December 2012** | | | | | |
| Cost | 836,851 | 1,428,052 | 56,246 | 288,942 | 2,610,091 |
| Accumulated depreciation and impairment | (423,415) | (773,912) | (28,648) | (8,379) | (1,234,354) |
| Net book amount | 413,436 | 654,140 | 27,598 | 280,563 | 1,375,737 |

Certain of the Group's buildings are leased to the Holding Company and third parties under operating leases, the lease rental amounting to approximately RMB7,687,000 (2011: approximately RMB7,707,000) is included in the consolidated income statement (Note 8). The summary details of operating lease arrangements are included in Note 45(b) to the consolidated financial statements.

The majority of the Group's and Company's buildings are located in the PRC under medium term leases.

The Group and Company has not pledged its buildings and machinery for the two years ended 31 December 2012 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 16. INVESTMENT PROPERTIES

**Group**

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| **Net book amount at 1 January** | | |
| — As previously reported | **33,861** | 35,302 |
| — Business combination under common control | **—** | — |
| — As restated | **33,861** | 35,302 |
| Depreciation charged for the year *(Note 8)* | **(1,350)** | (1,441) |
| Net book amount at 31 December | **32,511** | 33,861 |
| **As 31 December** | | |
| Cost | **35,572** | 35,572 |
| Accumulated depreciation and impairment | **(3,061)** | (1,711) |
| Net book amount | **32,511** | 33,861 |

The carrying value amount of investment properties shown above comprises leasehold interests in land situated in the PRC under medium term leases.

The cost of investment properties is depreciated over their estimated useful lives at estimated rates between 3.92% to 7.66% per annum.

The Group has not pledged its investment properties for the two years ended 31 December 2012 and 2011.

The fair value of the Group's investment properties as at 31 December 2012 was approximately RMB32,511,000 (2011: approximately RMB33,861,000). The fair value has been arrived on the basis of a valuation carried out at that date by independent local valuers, who are not connected with the Group.

The property rental income earned by the Group during the year from its investment properties, all of which are leased out under operating leases, amounted to approximately RMB1,846,000 (2011: approximately RMB2,048,000). Direct operating expenses arising on the investment properties amounted to approximately RMB798,000 (2011: approximately RMB1,441,000).

## 17. PREPAID OPERATING LEASES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| **Net book amount at 1 January** | | | | |
| — As previously reported | **685,202** | 208,385 | **451,000** | 66,400 |
| — Business combination under common control | **10,651** | — | **—** | — |
| — As restated | **695,853** | 208,385 | **451,000** | 66,400 |
| Additions | **76,143** | 448,124 | **—** | 389,403 |
| Capital injection by a non-controlling shareholder | **—** | 26,000 | **—** | — |
| Transfer from property, plant and equipment *(Note 15)* | **2,755** | 22,092 | **2,755** | — |
| Amortisation charged for the year *(Note 8)* | **(17,036)** | (8,748) | **(12,550)** | (4,803) |
| Net book amount at 31 December | **757,715** | 695,853 | **441,205** | 451,000 |
| **As 31 December** | | | | |
| Cost | **790,930** | 712,032 | **460,848** | 458,093 |
| Accumulated amortisation | **(33,215)** | (16,179) | **(19,643)** | (7,093) |
| Net book amount | **757,715** | 695,853 | **441,205** | 451,000 |

The prepaid operating leases comprise leasehold land in the PRC under medium term leases.

At 31 December 2012, none of the Group's land use rights (2011: approximately RMB6,162,000), were pledged to secure borrowings granted to the Group (Note 33(i)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 18. INTANGIBLE ASSETS

| | Group Trademark RMB'000 (Restated) | Group License RMB'000 (Restated) | Group Others RMB'000 (Restated) | Group Total RMB'000 (Restated) | Company Trademark RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2011** | | | | | |
| — Opening net book amount | | | | | |
| — As previously reported | — | — | — | — | — |
| — Business combination under common control | — | — | — | — | — |
| — As restated | — | — | — | — | — |
| Additions | 57,542 | 4,081 | 19 | 61,642 | 57,542 |
| Amortisation charged for the year *(Note 8)* | — | — | (11) | (11) | — |
| Net book amount at 31 December 2011 | 57,542 | 4,081 | 8 | 61,631 | 57,542 |
| **At 31 December 2011, as restated** | | | | | |
| Cost | 57,542 | 4,081 | 19 | 61,642 | 57,542 |
| Accumulated amortisation | — | — | (11) | (11) | — |
| Net book amount | 57,542 | 4,081 | 8 | 61,631 | 57,542 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 18. INTANGIBLE ASSETS *(CONTINUED)*

| | Group | | | | Company |
|---|---|---|---|---|---|
| | **Trademark** | **License** | **Others** | **Total** | **Trademark** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2012** | | | | | |
| Cost | **57,542** | **4,081** | **19** | **61,642** | **57,542** |
| Accumulated amortisation | **—** | **—** | **(11)** | **(11)** | **—** |
| Net book amount | **57,542** | **4,081** | **8** | **61,631** | **57,542** |
| **Year ended 31 December 2012** | | | | | |
| Opening net book amount | | | | | |
| — As previously reported | **57,542** | **4,081** | **8** | **61,631** | **57,542** |
| — Business combination under common control | **—** | **—** | **—** | **—** | **—** |
| — As restated | **57,542** | **4,081** | **8** | **61,631** | **57,542** |
| Additions | **1,984** | **—** | **—** | **1,984** | **1,984** |
| Exchange realignment | **—** | **78** | **—** | **78** | **—** |
| Amortisation charged for the year *(Note 8)* | **—** | **—** | **(8)** | **(8)** | **—** |
| Net book amount at 31 December 2012 | **59,526** | **4,159** | **—** | **63,685** | **59,526** |
| **At 31 December 2012** | | | | | |
| Cost | **59,526** | **4,159** | **19** | **63,704** | **59,526** |
| Accumulated amortisation | **—** | **—** | **(19)** | **(19)** | **—** |
| Net book amount | **59,526** | **4,159** | **—** | **63,685** | **59,526** |

The Group has not pledged its intangible assets for the years ended 31 December 2012 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 18. INTANGIBLE ASSETS *(CONTINUED)*

### Impairment test for intangible asset with indefinite useful life

The useful life of the trademark and license is assessed to be indefinite. The factors considered in the assessment of the useful life of the trademark and license include analysis of the market and competitive trends, product life cycles and management's long-term strategic development. Overall, these factors provided evidence that the trademark and license is expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amount of the trademark and license is estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the trademark and license is allocated. This method considers cash flows of the subsidiary (cash-generating unit) for the five years ending 31 December 2017 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 1% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of approximately 10%.

## 19. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments, at cost | **2,138,422** | 1,509,561 |
| Provision for impairment # | **(44,750)** | (44,750) |
| | **2,093,672** | 1,464,811 |

# An impairment has been recognised for certain unlisted investments with a carrying amount of approximately RMB44,750,000 (before deducting the impairment loss) (2011: approximately RMB44,750,000) because these unlisted investments have recorded operating losses.

There was no movement in impairment of interests in subsidiaries for the years ended 31 December 2012 and 2011.

The loans to subsidiaries of approximately RMB107,000,000 (2011: approximately RMB100,000,000) are granted in the form of designated deposits through a subsidiary, which is a financial institution, of the Company, are unsecured, bear interest at rates ranging from 6.07% to 7.1% (2011: 4.86% to 5.31%) per annum, and are repayable within one year (2011: one year).

## 19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Deposits placed with a subsidiary are deposits of approximately RMB548,484,000 (2011: approximately RMB575,245,000) placed by the Company in the subsidiary which is a financial institution.

Other balances with subsidiaries are included in Notes 24, 25, 29 and 30 to the consolidated financial statements.

The carrying amounts of balances with subsidiaries approximate to their fair values.

As at 31 December 2012 and 2011, particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | | |
| | | | 2012 | 2011 | 2012 | 2011 | |
| Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司 | Bermuda | US$12,000 | **90.1** | 90.1 | **—** | — | Investment holding |
| Yituo (Luoyang) Harvester Machinery Co., Ltd. * # 一拖(洛陽)收穫機械有限公司 | The PRC | RMB49,295,000 | **—** | — | **93.9** | 93.9 | Inactive |
| Luoyang Changhong High Technology Trading Company Limited * # 洛陽長宏工貿有限公司 | The PRC | RMB3,000,000 | **100** | 100 | **—** | — | Trading of tractors |
| Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") * # — *(Note (i))* 一拖(洛陽)神通工程機械有限公司 | The PRC | RMB53,000,000 | **100** | 76 | **—** | — | Manufacture and sale of forklifts and mining trucks |
| YTO Group Finance Company Limited ("YTO Finance") * # — *(Note (ii))* 中國一拖集團財務有限責任公司 | The PRC | RMB500,000,000 | **88.6** | 87.8 | **4** | 4 | Provision of financial services |
| Luoyang Changxing Agriculture Machinery Company Limited * # 洛陽長興農業機械有限公司 | The PRC | RMB3,000,000 | **70** | 70 | **30** | 30 | Trading of tractors |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2012 and 2011, particulars of the principal subsidiaries are as follows: *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct 2012 | Direct 2011 | Indirect 2012 | Indirect 2011 | Principal activities |
|---|---|---|---|---|---|---|---|
| Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. * # 一拖(洛陽)中成機械有限公司 | The PRC | RMB10,000,000 | **73** | 73 | **—** | — | Manufacture and sale of agricultural machinery and tools |
| Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") * + 一拖(洛陽)柴油機有限公司 | The PRC | USD 6,000,000 | **58.8** | 58.8 | **22.5** | 22.5 | Manufacture and sale of diesel engines |
| Yituo (Luoyang) Fuel Injection Pump Co., Ltd. ("YLFIP") * # 一拖(洛陽)燃油噴射有限公司 | The PRC | RMB94,114,000 | **42.5** | 42.5 | **29.7** | 29.7 | Manufacture and sale of fuel injection pumps and fuel jets |
| Yituo (Luoyang) Power Machinery Co.,Limited * # 一拖(洛陽)動力機械有限公司 | The PRC | RMB38,000,000 | **42** | 42 | **40.7** | 40.7 | Manufacture and sale of diesel engines |
| Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") * # 一拖(洛陽)搬運機械有限公司 | The PRC | RMB55,880,000 | **93.6** | 93.6 | **—** | — | Manufacture and sale of forklifts |
| YTO (Xinjiang) Dongfanghong Machining Co., Ltd. * # 一拖(新疆)東方紅裝備機械有限公司 | The PRC | RMB100,000,000 | **100** | 100 | **—** | — | Manufacture and sale of tractors, parts and components |
| China-Africa Machinery Corp. ("CAMACO") + 中非重工投資有限公司 | The PRC | RMB250,000,000 | **55** | 55 | **—** | — | Investment management, agency for importing and exporting goods and technology |
| Cadfund Machinery (Pty) Ltd | South Africa | ZAR 0.1 | **—** | — | **55** | 55 | Sale of agricultural and construction machinery |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2012 and 2011, particulars of the principal subsidiaries are as follows: *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | | |
| | | | **2012** | 2011 | **2012** | 2011 | |
| Luoyang Tractors Research Institute Co., Ltd. ("LTRI") * # 洛陽拖拉機研究所有限公司 | The PRC | RMB341,000,000 | **51** | 51 | **—** | — | Technology development and consultancy services for agricultural and construction machinery |
| Shanghai Dragon (Group) Co., Ltd. ("Shanghai Dragon") * # 上海強農(集團)股份有限公司 | The PRC | RMB81,000,000 | **93.8** | 93.8 | **—** | — | Trading of agricultural machineries, and properties investment |
| YTO France SAS | France | EUR20,000,000 | **100** | 100 | **—** | — | Manufacture and sale of powershift transmission system |
| YTO (Luoyang) Forklift Co., Limited ("YTO Forklift) * # *(Note (iii))* 一拖(洛陽)叉車有限公司 | The PRC | RMB28,600,000 | **100** | 100 | **—** | — | Manufacture and sale of forklifts |
| YTO International Economic and Trading Co., Ltd. ("YTO International") * # — *(Note (iii))* 一拖國際經濟貿易有限公司 | The PRC | RMB66,000,000 | **100** | 100 | **—** | — | Sale of agricultural machinery and construction machinery |
| YITWO Agro-Industrial *(Note (iii))* 一拖科特迪瓦農機裝配有限公司 | Cote d'Ivoire | XOF270,660,000 | **—** | — | **51.5** | 51.5 | Sale of agricultural machinery |
| Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") * # — *(Note (iv))* 洛陽拖汽工程車輛科技有限公司 | The PRC | RMB4,000,000 | **—** | — | **51** | 51 | Provision of technology transfer and consultancy services |
| YTO Heilongjiang Agricultural Machinery Co., Ltd ("YTO Heilongjiang") * # — *(Note (v))* 一拖黑龍江農業裝備有限公司 | The PRC | RMB100,000,000 | **100** | 100 | **—** | — | Manufacture and sale of tractors, parts and components |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2012 and 2011, particulars of the principal subsidiaries are as follows: *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company: Direct 2012 | Direct 2011 | Indirect 2012 | Indirect 2011 | Principal activities |
|---|---|---|---|---|---|---|---|
| YTO Shunxing (Luoyang) Spare Parts Co., Ltd ("YTO Shunxing") * # — *(Note (vi))* 一拖順興(洛陽)零部件有限責任公司 | The PRC | RMB 30,000,000 | **100** | 40 | **—** | — | Manufacture and sale of forged steel crankshafts |
| YTO (Luoyang) Flag Auto-Body Co., Ltd ("YTO Flag") * # — *(Note (vii))* 一拖(洛陽)福萊格車身有限公司 | The PRC | RMB50,000,000 | **100** | 51.4 | **—** | — | Manufacture and sale of covering parts, driving cabins, auto parts and other components |
| YTO (Luoyang) Drive Axle Co., Ltd ("YTO Axle") * # — *(Note (viii))* 一拖(洛陽)車橋有限公司 | The PRC | RMB50,000,000 | **100** | — | **—** | — | Manufacture and sale of offroad machinery drive axles |

*Notes:*

(i) On 30 May 2012, the Company acquired an additional 24% equity interest in YLST from the Holding Company. After the acquisition, YLST become a wholly-owned subsidiary of the Company. Please refer to Note 39(a)(i) for details.

(ii) On 30 June 2012, the Company acquired an additional 0.8% equity interest in YTO Finance from the independent third parties. Upon the completion of this further acquisition, the percentage of equity attributable to the Group increased from 91.8% to 92.6%. Please refer to Note 39(a)(ii) for details.

(iii) During 2011, the Company and its non-wholly owned subsidiary, CAMACO, acquired 100%, 86.82% and 93.58% equity interests, in YTO International, YTO Forklift and YITWO Agro-Industrial from the Holding Company, respectively. Please refer to Note 41(b) for details. After completion of the above acquisition, the Company acquired a further 13.18% equity interest in YTO Forklift from its non-controlling shareholders, and YTO Forklift became a wholly-owned subsidiary of the Company. Please refer to Note 39(b)(ii) for details.

(iv) On 1 October 2011, a 51% owned subsidiary of the Group, LTRI, acquired a further 70% equity interest in Tuoqi Engineering. Please refer to Note 40(b) for details.

(v) During 2011, a wholly-owned subsidiary, YTO Heilongjiang, was established in the PRC.

## 19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

*Notes: (Continued)*

(vi) On 31 May 2012, the Company acquired a further 60% equity interest in YTO Shunxing from the independent third parties. After the further acquisition, YTO Shunxing became a wholly-owned subsidiary of the Company. Please refer to Note 40(a) for details.

(vii) On 31 December 2012, the Company acquired 100% equity interest in YTO Flag from the Holding Company. Please refer to the Note 41(a) for details. As at 31 December 2011, the Holding Company held 51.39% of equity interest and subsequently acquired an additional 48.61% equity interest on 31 July 2012 in YTO Flag. Upon completion of this further acquisition, YTO Flag became a wholly owned subsidiary of the Holding Company. Accordingly, the financial statements of YTO Flag have been consolidated since the date of the earliest financial period presented, as if the acquisition of 51.39% equity interest had been occurred at that time and 100% equity interest had been occurred after 31 July 2012, pursuant to the acquisition stages occurred by the Holding Company. Please refer to Note 39(a)(iii) for details.

(viii) On 31 December 2012, the Company acquired 100% equity interests in YTO Axle from the Holding Company. YTO Axle was incorporated by the Holding Company during 2012. Please refer to the Note 41(a) for details.

* The names of the PRC subsidiaries in English are direct translations of their respective registered names in Chinese.

\# Limited liability companies established in the PRC.

\+ Sino-foreign joint ventures established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 20. INTERESTS IN ASSOCIATES

| | Group 2012 RMB'000 | Group 2011 RMB'000 (Restated) | Company 2012 RMB'000 | Company 2011 RMB'000 |
|---|---|---|---|---|
| Unlisted shares, at cost | — | — | 59,000 | 71,000 |
| Share of net assets | 7,810 | 19,815 | — | — |
| | 7,810 | 19,815 | 59,000 | 71,000 |
| Provision for impairment | — | — | (59,000) | (59,000) |
| | 7,810 | 19,815 | — | 12,000 |

The Group's deposits from associates are disclosed in Note 31 to the consolidated financial statements.

The Group's balances with associates are disclosed in Note 24 to the consolidated financial statements.

As at 31 December 2012 and 2011, particulars of the principal associates are as follows:

| Name | Nominal value of issued ordinary/ registered share capital | Place of registration | Percentage of equity attributable to the Group Direct 2012 | Direct 2011 | Indirect 2012 | Indirect 2011 | Principal activities |
|---|---|---|---|---|---|---|---|
| Luoyang First Motors Company Limited * 洛陽福賽特汽車股份有限公司 | RMB200,000,000 | The PRC | 29.5 | 29.5 | — | — | Design, manufacture and sale of vehicles and related accessories |
| YTO Shunxing (Luoyang) Spare Parts Co., Ltd.* ("YTO Shunxing") — *(Note (i))* 一拖順興(洛陽)零部件有限公司 | RMB30,000,000 | The PRC | 100 | 40 | — | — | Manufacture, sale and service of forged steel crankshafts |
| Luoyang I&C Technology Consulting Company Limited ("I&C Technology") * — *(Note (ii))* 洛陽意中技術諮詢有限公司 | RMB1,000,000 | The PRC | — | — | 15.3 | 15.3 | Technology development, and consultancy services |
| Luoyang Yongwei Machinery Company Limited * 洛陽市永為機械有限公司 | RMB7,500,000 | The PRC | — | — | 48.6 | 48.6 | Manufacture and sale of agricultural machinery accessories |

* The names of the PRC subsidiaries in English are direct translations of their respective registered names in Chinese.

## 20. INTERESTS IN ASSOCIATES *(CONTINUED)*

As at 31 December 2012 and 2011, particulars of the principal associates are as follows: *(Continued)*

*Note:*

(i) On 31 May 2012, the Group acquired a further 60% equity interest in YTO Shunxing and therefore YTO Shunxing became a wholly owned subsidiary of the Company. Please refer to Note 40(a) for details.

(ii) Since I&C Technology is an associate of a 51% owned subsidiary of the Group, it is regarded as an associate of the Group.

All the above associates have been accounted for using the equity method in the Group's consolidated financial statements.

The following table illustrates the summarised financial information of all of the Group's associates extracted from their financial statements:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Assets | **30,086** | 61,443 |
| Liabilities | **11,371** | 14,580 |
| Revenue | **135,746** | 144,102 |
| Profits | **3,053** | 4,481 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Listed equity investments in the PRC, at fair value | **78,426** | 99,306 | **43,472** | 39,424 |
| Unlisted equity investments, at cost | **83,147** | 105,527 | **4,503** | 26,883 |
| Provision for impairment | **(2,123)** | (2,123) | **(2,123)** | (2,123) |
| | **81,024** | 103,404 | **2,380** | 24,760 |
| At 31 December | **159,450** | 202,710 | **45,852** | 64,184 |
| Portion classified as current assets | **—** | (23,360) | **—** | (23,360) |
| Non-current portion | **159,450** | 179,350 | **45,852** | 40,824 |

During the year, the gross gain in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to approximately RMB2,871,000 (2011: gross loss of approximately RMB44,991,000).

The fair values of listed equity investments are based on quoted market prices.

As at 31 December 2012 and 2011, all unlisted equity investments of the Group and the Company were not stated at fair value but at cost less any accumulated impairment losses (if any), because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2011, certain listed A share investments had a lock-up period to July 2012. The fair value of these restricted shares is estimated based on the quoted market price of the corresponding listed shares, adjusted for the impact of the restriction. The adjustment is made by reference to historical volatility of the respective shares and the restriction. The Group calculated the fair value for listed A shares with no disposal restriction based on the quoted market prices as at the end of the reporting period.

# 22. LOAN RECEIVABLES

**Group**

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Analysis by nature: | | |
| Loan borrowings, net | **675,550** | 445,119 |
| Discounted bills, net | **194,557** | 125,916 |
| Finance lease obligations, net | **14,717** | 95,060 |
| | **884,824** | 666,095 |

| | Note | **Gross amount** | **Provisions** | **Net** |
|---|---|---|---|---|
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| Analysis by customer: | | | | |
| **2012** | | | | |
| Loans to the Holding Company | (i) | **182,744** | **4,500** | **178,244** |
| Loans to related companies | (ii) | **420,133** | **10,025** | **410,108** |
| Loans to customers | (iii) | **301,875** | **5,403** | **296,472** |
| | | **904,752** | **19,928** | **884,824** |
| Portion classified as current assets | | **(857,688)** | **(18,517)** | **(839,171)** |
| Non-current portion | | **47,064** | **1,411** | **45,653** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 22. LOAN RECEIVABLES *(CONTINUED)*

| | *Note* | Gross amount *RMB'000* (Restated) | Provisions *RMB'000* (Restated) | Net *RMB'000* (Restated) |
|---|---|---|---|---|
| Analysis by customer: | | | | |
| **2011** | | | | |
| Loans to the Holding Company | (i) | 50,000 | 500 | 49,500 |
| Loans to related companies | (ii) | 429,271 | 9,696 | 419,575 |
| Loans to customers | (iii) | 204,343 | 7,323 | 197,020 |
| | | 683,614 | 17,519 | 666,095 |
| Portion classified as current assets | | (648,256) | (16,463) | (631,793) |
| Non-current portion | | 35,358 | 1,056 | 34,302 |

*Notes:*

(i) The loans to the Holding Company are granted by YTO Finance, and are unsecured, bear interest at rates ranging from 4.2% to 4.9% (2011: 4.67% to 5.08%) per annum and repayable within one year (2011: one year).

(ii) The loans to these companies (fellow subsidiaries and associates of the Holding Company) are unsecured, bear interest at rates ranging from 4.5% to 6.56% (2011: 4.42% to 7.11%) per annum and repayable within one year (2011: one to two years).

(iii) The loans to customers represent the loans granted to certain customers as permitted by the People's Bank of China (the "PBOC").

## 22. LOAN RECEIVABLES *(CONTINUED)*

The total minimum lease payments receivable under finance leases contracts, and their present values are as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **Present value of the minimum lease payments** | **Total minimum lease payments** | Present value of the minimum lease payments | Total minimum lease payments |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| | | | (Restated) | (Restated) |
| Amount receivable: | | | | |
| Within three months | **10,022** | **10,247** | 32,861 | 33,314 |
| Within one year but over three months | **5,634** | **5,673** | 63,785 | 67,294 |
| Within five years but over one year | **—** | **—** | 4,482 | 4,997 |
| | **15,656** | **15,920** | 101,128 | 105,605 |
| Unearned future income on finance lease | **—** | **(264)** | — | (4,477) |
| | **15,656** | **15,656** | 101,128 | 101,128 |
| Less: Impairment allowance | **(939)** | | (6,068) | |
| Net amount of finance leases | **14,717** | | 95,060 | |

## 22. LOAN RECEIVABLES *(CONTINUED)*

The movements in impairment during the year are as follows:

**Group**

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| At 1 January | | |
| — As previously reported | **17,869** | 14,815 |
| — Business combination under common control | **(350)** | (250) |
| — As restated | **17,519** | 14,565 |
| Provision for impairment charged to the income statement, net *(Note 8)* | **2,409** | 2,954 |
| At 31 December | **19,928** | 17,519 |

The maturity profile of the Group's loan receivables at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates, as follows:

**Group**

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Repayable: | | |
| Within three months | **325,265** | 219,231 |
| Within one year but over three months | **532,423** | 429,025 |
| Within five years but over one year | **46,843** | 35,026 |
| Over five years | **221** | 332 |
| At 31 December | **904,752** | 683,614 |

The carrying amounts of the Group's loan receivables approximate to their fair values and are denominated in Renminbi.

# 23. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Raw materials | **422,156** | 433,924 | **147,257** | 172,428 |
| Work in progress | **367,891** | 362,424 | **147,153** | 166,445 |
| Finished goods | **538,187** | 355,477 | **32,282** | 102,140 |
| Spare parts and consumables | **35,301** | 43,626 | **16,598** | — |
| | **1,363,535** | 1,195,451 | **343,290** | 441,013 |

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately RMB9,750,951,000 (2011: approximately RMB10,029,459,000 (restated)) (Note 8). Provision for impairment on inventories recognised during the year, as included in 'cost of sales', amounted to approximately RMB12,650,000 (2011: reversal of impairment on inventories of approximately RMB6,526,000 (restated)) (Note 8).

# 24. TRADE AND BILL RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Bill receivables | **1,292,596** | 1,571,708 | **615,028** | 904,973 |
| Trade receivables | **1,047,219** | 956,296 | **1,206,605** | 809,915 |
| | **2,339,815** | 2,528,004 | **1,821,633** | 1,714,888 |
| Less: Impairment | **(70,825)** | (82,055) | **(108,871)** | (41,148) |
| | **2,268,990** | 2,445,949 | **1,712,762** | 1,673,740 |

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted to its customers are from 30 to 90 days; otherwise, cash terms are normally required. The Group seeks to maintain strict control over its outstanding receivables. Trade receivables are non-interest-bearing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

The carrying amounts of the Group's trade and bill receivables approximate to their fair values and the majority of which are denominated in Renminbi.

An aged analysis of the trade and bill receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Within 90 days | **1,498,243** | 1,105,141 | **1,443,427** | 928,966 |
| 91 days to 180 days | **627,361** | 1,243,552 | **187,752** | 648,043 |
| 181 days to 365 days | **127,980** | 83,994 | **20,621** | 52,442 |
| 1 to 2 years | **15,406** | 13,262 | **20,363** | 44,289 |
| Over 2 years | **—** | — | **40,599** | — |
| | **2,268,990** | 2,445,949 | **1,712,762** | 1,673,740 |

## 24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

The movements in provision for impairment of trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| At 1 January | | | | |
| — As previously reported | **81,471** | 85,311 | **41,148** | 23,512 |
| — Business combination under common control | **584** | 395 | **—** | — |
| — As restated | **82,055** | 85,706 | **41,148** | 23,512 |
| (Reversal of)/provision for impairment during the year *(Note 8)* | **(5,212)** | 219 | **67,723** | 20,067 |
| Amounts written off as uncollectible | **(6,160)** | (3,870) | **—** | (2,431) |
| Exchange realignment | **141** | — | **—** | — |
| Acquisition of subsidiaries | **1** | — | **—** | — |
| At 31 December | **70,825** | 82,055 | **108,871** | 41,148 |

Included in the above provision for impairment of trade receivables are individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

The aged analysis of the trade and bill receivables that are not considered to be impaired as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Neither past due nor impaired | **1,498,243** | 2,348,692 | **1,631,179** | 1,577,009 |
| Less than six months past due | **627,361** | 83,994 | **20,621** | 52,442 |
| Over six months past due | **143,386** | 13,263 | **60,962** | 44,289 |
| | **2,268,990** | 2,445,949 | **1,712,762** | 1,673,740 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good trading record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2012, certain of the Group's bill receivables of approximately RMB191,050,000 (2011: approximately RMB184,920,000 (restated)) were pledged for the issuance of bill payables. The Company has not pledged its bill receivables for the year ended 31 December 2012 (2011: Nil).

At 31 December 2012, none of the Group's bill receivables (2011: RMB16,000,000), were pledged to secure borrowings granted to the Group.(Note 33(ii))

Included in the trade and bill receivables of the Group are unsecured trade receivables due from the Holding Company of approximately RMB131,000 (2011: approximately RMB78,000). These balances are interest-free and are repayable on demand. There were no unsecured trade receivables due from the Holding Company as included in trade and bill receivables of the Company (2011: approximately RMB 62,000)

No amount were included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from associates (2011: approximately RMB84,000) and (2011: approximately RMB84,000), respectively. These balances were interest-free and were repayable on demand.

## 24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB14,749,000 (2011: approximately RMB8,494,000) and approximately RMB11,140,000 (2011: approximately RMB4,033,000), respectively. These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Company are unsecured trade receivables due from subsidiaries of approximately RMB1,179,830,000 (2011: approximately RMB802,568,000). These balances are interest-free and are repayable on demand.

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Prepayments, deposits and other debtors | **754,691** | 624,448 | **525,989** | 370,987 |
| Less: Impairment | **(18,060)** | (12,040) | **(8,015)** | (6,552) |
| | **736,631** | 612,408 | **517,974** | 364,435 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

The above balances are net of impairment allowance and the majority are denominated in Renminbi. The movements in provision for impairment of other receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| At 1 January | | | | |
| — As previously reported | **12,025** | 10,938 | **6,552** | 8,392 |
| — Business combination under common control | **15** | 12 | **—** | — |
| — As restated | **12,040** | 10,950 | **6,552** | 8,392 |
| Impairment during the year *(Note 8)* | **6,020** | 1,433 | **1,463** | 8 |
| Amounts written off as uncollectible | **—** | (343) | **—** | (1,848) |
| At 31 December | **18,060** | 12,040 | **8,015** | 6,552 |

Included in other debtors of the Group and the Company are other unsecured receivables due from the Holding Company of approximately RMB41,574,000 (2011: approximately RMB17,764,000 (restated)) and approximately RMB32,606,000 (2011: approximately RMB1,327,000), respectively. These balances are interest-free and are repayable in accordance with terms agreed.

Included in other debtors of the Group and the Company are other unsecured receivables due from related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB56,398,000 (2011: approximately RMB7,479,000 (restated)) and approximately RMB2,006,000 (2011: approximately RMB2,405,000), respectively. These balances are interest-free and are repayable in accordance with terms agreed.

Included in prepayments, deposits and other debtors of the Company are unsecured amounts due from subsidiaries of approximately RMB78,927,000 (2011: approximately RMB33,668,000). These balances are interest-free and are repayable in accordance with terms agreed.

Other balances are unsecured and interest-free, and repayable in accordance with terms agreed.

# 26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Financial assets held for trading purposes: | | |
| — Debt securities | | |
| — Listed in the PRC | | |
| — Government | **76,000** | — |
| — Banks and other financial institutions | **—** | 12,944 |
| — Others | **—** | 42,136 |
| | **76,000** | 55,080 |
| — Equity securities | | |
| — Listed in Hong Kong | **4,575** | 3,304 |
| — Listed in the PRC | **6,226** | 7,544 |
| | **10,801** | 10,848 |
| Financial assets designated at fair value through profit or loss | | |
| — Investments in funds and trusts | | |
| — Listed in the PRC | **—** | 11,470 |
| — Unlisted in the PRC | **220,000** | — |
| | **220,000** | 11,470 |
| | **306,801** | 77,398 |

The above financial assets at 31 December 2012 and 2011 were without any restriction on sale.

The debt securities bear interest at rates 3.7% (2011: 0.5% to 5.7%) per annum, with maturity periods within 1 year (2011: 4 and 8 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 27. HELD-TO-MATURITY FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| At amortised cost: | | |
| Unlisted bonds in the PRC | **52,090** | — |

Unlisted bonds bear interest ranging from 5.2% to 8.5% per annum and will mature between 7 March 2013 and 18 July 2013. Held-to-maturity financial assets are stated at amortised cost discounted by the effective interest method and net of any impairment.

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2012** | 2011 | **2012** | 2011 |
| | *Note* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | | (Restated) | | |
| Cash and bank balances— *(Note (i))* | | **1,410,573** | 1,130,590 | **411,815** | 50,081 |
| Mandatory reserve deposits with the PBOC — *(Note (ii))* | | **166,543** | 165,605 | **—** | — |
| Time deposits — *(Note (iv))* | | **380,916** | 244,248 | **87,256** | 97,100 |
| | | **1,958,032** | 1,540,443 | **499,071** | 147,181 |
| Less: Pledged bank deposits for bill payables | 29 | **(132,693)** | (122,880) | **(87,256)** | (75,000) |
| Less: Pledged bank deposits for other banking facilities | | **—** | (22,868) | **—** | (22,100) |
| Cash and cash equivalents in statement of financial position | | **1,825,339** | 1,394,695 | **411,815** | 50,081 |
| Less: Mandatory reserve deposits with the PBOC — *(Note (ii))* | | **(166,543)** | (165,605) | | |
| Add: Pledged bank deposits for the issuance of bill payables — *(Note (iii))* | | **132,693** | 122,880 | | |
| Add: Pledged bank deposits for other banking facilities —*(Note (iii))* | | **—** | 22,868 | | |
| Cash and cash equivalents in the consolidated cash flow statement | | **1,791,489** | 1,374,838 | | |

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(CONTINUED)*

*Notes:*

(i) The balance included YTO Finance's deposits placed with the PBOC and other banks of approximately RMB544,858,000 (2011: approximately RMB218,139,000) and approximately RMB476,773,000 (2011: approximately RMB777,269,000), respectively.

(ii) The balance represents mandatory reserve deposits placed with the PBOC. In accordance with the regulations of the PBOC, the balance should be no less than a specific percentage of the amounts of customer deposits placed with YTO Finance's. The mandatory reserve deposits are not available for use in the Group's day-to-day operations.

(iii) As the bank balances were pledged for the Group's trade facilities for issuing bill payables and other banking facilities, they are included in cash and cash equivalents in the consolidated statement of cash flows.

(iv) The maturity profile of the Group's time deposits at the end of the reporting period is analysed as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Maturity within three months when acquired | **356,916** | 244,178 |
| Maturity within one year but over three months when acquired | **24,000** | 70 |
| | **380,916** | 244,248 |

At the end of the reporting period, the cash and bank balances of the Group denominated in HK dollars, US dollars and Euro amounted to approximately RMB28,697,000 (2011: approximately RMB27,938,000 (restated)), approximately RMB49,699,000 (2011: approximately RMB28,913,000 (restated)) and approximately RMB51,839,000 (2011: approximately RMB11,955,000 (restated)), respectively. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 29. TRADE AND BILL PAYABLES

An aged analysis of the trade and bill payables as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Within 90 days | **1,876,720** | 1,004,863 | **1,261,622** | 1,060,188 |
| 91 days to 180 days | **447,757** | 855,985 | **278,030** | 564,050 |
| 181 days to 365 days | **110,844** | 409,424 | **64,000** | 21,417 |
| 1 to 2 years | **60,029** | 38,832 | **15,694** | 12,399 |
| Over 2 years | **53,015** | 35,749 | **28,204** | 22,456 |
| | **2,548,365** | 2,344,853 | **1,647,550** | 1,680,510 |

The Group's bill payables amounting to approximately RMB518,133,000 (2011: approximately RMB651,392,000 (restated)) are secured by the pledge of certain of the Group's bank deposits amounting to approximately RMB132,693,000 (2011: approximately RMB122,880,000 (restated)) (Note 28) and Group's bill receivables approximately RMB191,050,000 (2011: approximately 184,920,000 (restated)) (Note 24).

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the Holding Company of approximately RMB14,649,000 (2011: approximately RMB22,354,000 (restated)) and approximately RMB1,009,000 (2011: nil), respectively. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB15,125,000 (2011: approximately RMB13,943,000 (restated)) and approximately RMB1,530,000 (2011: approximately RMB705,000), respectively. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Company are unsecured trade payables due to subsidiaries of approximately RMB139,731,000 (2011: approximately RMB11,128,000).

The carrying amounts of the Group's trade and bill payables approximate to their fair values and the majority are denominated in Renminbi.

# 30. OTHER PAYABLES AND ACCRUALS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2012** | 2011 | **2012** | 2011 |
| | *Note* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | | (Restated) | | |
| Accruals and other liabilities | | **817,398** | 806,353 | **192,140** | 362,809 |
| Current portion of deferred income | 35 | **3,786** | 3,786 | **2,768** | 2,768 |
| | | **821,184** | 810,139 | **194,908** | 365,577 |

Included in other liabilities of the Group and the Company are amounts due to the Holding Company of approximately RMB193,590,000 (2011: approximately RMB287,466,000) and approximately RMB37,127,000 (2011: approximately RMB194,915,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding Company) of approximately RMB44,873,000 (2011: approximately RMB133,000 (restated)) and approximately RMB44,747,000 (2011: approximately RMB122,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

No amounts were included in other liabilities of the Group relating to non-controlling interests of subsidiaries of the Group (2011: approximately RMB3,063,000). These balances were unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Company are amounts due to subsidiaries of approximately RMB41,000,000 (2011: approximately RMB80,510,000). These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 31. CUSTOMER DEPOSITS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Deposits from the Holding Company | **582,721** | 737,730 |
| Deposits from associates | **73** | 4,204 |
| Deposits from fellow subsidiaries and associates of the Holding Company | **316,305** | 230,425 |
| Deposits from customers | **211,188** | 86,061 |
| | **1,110,287** | 1,058,420 |

All of these balances are unsecured and bear interest at rates ranging from 0.39% to 3.5% (2011: 0.5% to 3.31%) per annum. The carrying amount of customer deposits approximate to their fair values and are denominated in Renminbi.

The maturity profile of the Group's customer deposits at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Repayable: | | |
| On demand | **892,423** | 905,990 |
| Within three months | **72,454** | 111,997 |
| Within one year but over three months | **145,410** | 40,433 |
| | **1,110,287** | 1,058,420 |

## 32. PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

As at 31 December 2012 and 2011, all placement counterparties of the Group are banks located in the PRC.

## 33. BORROWINGS

**Group**

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***RMB'000*** | Effective interest rate (%) | Maturity | *RMB'000* (Restated) |
| **Current:** | | | | | | |
| **Bank borrowings** | | | | | | |
| — Secured | | | **—** | 4.84%–6.71% | 2012 | 14,400 |
| — Unsecured | **2.5%–7.91%** | **2013** | **451,241** | 1.88%–7.35% | 2012 | 955,068 |
| | | | **451,241** | | | 969,468 |
| **Non-current:** | | | | | | |
| **Other borrowings** | | | | | | |
| — Unsecured | **4.1%–5.75%** | **2014–2017** | **617,500** | 5.13%–6.90% | 2013–2015 | 186,000 |
| | | | **1,068,741** | | | 1,155,468 |
| **Analysed into:** | | | | | | |
| Borrowings repayable: | | | | | | |
| Within one year and on demand | | | **451,241** | | | 969,468 |
| Between one to two years | | | **413,000** | | | 44,000 |
| Between two to three years | | | **167,000** | | | 44,000 |
| Between three to five years | | | **37,500** | | | 98,000 |
| | | | **1,068,741** | | | 1,155,468 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 33. BORROWINGS *(CONTINUED)*

**Company**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***RMB'000*** | Effective interest rate (%) | Maturity | *RMB'000* (Restated) |
| **Current:** | | | | | | |
| **Bank borrowings** | | | | | | |
| — Unsecured | **3.85%–5.32%** | **2013** | **886,041** | 1.88%–7.35% | 2012 | 1,278,467 |
| **Non-current:** | | | | | | |
| **Other borrowings** | | | | | | |
| — Unsecured | **4.1%–5.75%** | **2014–2017** | **617,500** | 5.13%–6.90% | 2013–2015 | 186,000 |
| | | | **1,503,541** | | | 1,464,467 |
| **Analysed into:** | | | | | | |
| Borrowings repayable: | | | | | | |
| Within one year and on demand | | | **886,041** | | | 1,278,467 |
| Between one to two years | | | **413,000** | | | 44,000 |
| Between two to three years | | | **167,000** | | | 44,000 |
| Between three to five years | | | **37,500** | | | 98,000 |
| | | | **1,503,541** | | | 1,464,467 |

## 33. BORROWINGS *(CONTINUED)*

The borrowings of the Group and the Company as at 31 December 2012 and 2011 are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| RMB | **939,505** | 1,077,794 | **1,493,484** | 1,412,800 |
| US dollar | **51,541** | 66,631 | **10,057** | 51,667 |
| Euro | **66,541** | — | **—** | — |
| West African CFA franc | **11,154** | 11,043 | **—** | — |
| | **1,068,741** | 1,155,468 | **1,503,541** | 1,464,467 |

Other interest rate information:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Fixed interest rate | **768,741** | 711,705 | **1,203,541** | 1,035,667 |
| Floating interest rate | **300,000** | 443,763 | **300,000** | 428,800 |
| | **1,068,741** | 1,155,468 | **1,503,541** | 1,464,467 |

The borrowings of the Group and the Company are secured by:

(i) at 31 December 2011, a subsidiary's land use rights with an aggregate net carrying value of approximately RMB6,162,000 (Note 17).

(ii) at 31 December 2011, a subsidiary's bill receivables with an aggregate carrying value of approximately RMB16,000,000 (Note 24).

(iii) at 31 December 2011, a subsidiary's pledged bank deposits with an aggregate carrying value of approximately RMB22,868,000 (Note 28).

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values, which are calculated by discounting the expected future cash flows at the prevailing interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 34. PROVISIONS

**Group**

| | Early retirement benefits *RMB'000* (Restated) | Product warranties *RMB'000* (Restated) | Total *RMB'000* (Restated) |
|---|---|---|---|
| **2011** | | | |
| At 1 January 2011 | | | |
| — As previously reported | 99,862 | 46,891 | 146,753 |
| — Business combination under common control | — | — | — |
| — As restated | 99,862 | 46,891 | 146,753 |
| (Reversal of)/provision for the year *(Note 8)* | (10,871) | 113,141 | 102,270 |
| Amounts utilised during the year | (24,271) | (137,909) | (162,180) |
| At 31 December 2011 | 64,720 | 22,123 | 86,843 |
| Portion classified as current liabilities | (21,716) | (22,123) | (43,839) |
| Non-current portion | 43,004 | — | 43,004 |

# 34. PROVISIONS *(CONTINUED)*

**Group**

| | Early retirement benefits | Product warranties | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **2012** | | | |
| At 1 January 2012 | | | |
| — As previously reported | **64,720** | **22,123** | **86,843** |
| — Business combination under common control | **—** | **—** | **—** |
| — As restated | **64,720** | **22,123** | **86,843** |
| Provision for the year *(Note 8)* | **12,155** | **102,465** | **114,620** |
| Amounts utilised during the year | **(26,246)** | **(103,222)** | **(129,468)** |
| At 31 December 2012 | **50,629** | **21,366** | **71,995** |
| Portion classified as current liabilities | **(19,169)** | **(21,366)** | **(40,535)** |
| Non-current portion | **31,460** | **—** | **31,460** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 34. PROVISIONS *(CONTINUED)*

**Company**

| | Early retirement benefits *RMB'000* | Product warranties *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **2011** | | | |
| At 1 January 2011 | 84,960 | 10,120 | 95,080 |
| (Reversal of)/provision for the year | (9,862) | 219 | (9,643) |
| Amounts utilised during the year | (19,970) | (10,339) | (30,309) |
| At 31 December 2011 | 55,128 | — | 55,128 |
| Portion classified as current liabilities | (18,413) | — | (18,413) |
| Non-current portion | 36,715 | — | 36,715 |

| | **Early retirement benefits** *RMB'000* | **Product warranties** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| **2012** | | | |
| At 1 January 2012 | **55,128** | **—** | **55,128** |
| Provision for the year | **2,367** | **11,509** | **13,876** |
| Amounts utilised during the year | **(18,657)** | **(6,009)** | **(24,666)** |
| At 31 December 2012 | **38,838** | **5,500** | **44,338** |
| Portion classified as current liabilities | **(14,758)** | **(5,500)** | **(20,258)** |
| Non-current portion | **24,080** | **—** | **24,080** |

## 34. PROVISIONS *(CONTINUED)*

A provision for early retirement benefits was recorded during the year in connection with the early retirement plans for the Group's employees. Further details of the early retirement plans are included in Note 42 to the consolidated financial statements.

The Group provides warranties for certain of its products sold, under which faulty products are repaired or replaced. The estimation basis is reviewed regularly and is revised where appropriate.

## 35. DEFERRED INCOME

The movements of deferred income in relation to government grants as stated under current and non-current liabilities are as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| At 1 January | | | | |
| — As previously reported | **115,514** | 110,534 | **93,784** | 93,802 |
| — Business combination under common control | **—** | — | **—** | — |
| — As restated | **115,514** | 110,534 | **93,784** | 93,802 |
| Received during the year | **83,864** | 15,669 | **56,780** | 2,750 |
| Recognised as other income and gains during the year *(Note 6)* | **(34,152)** | (10,689) | **(6,864)** | (2,768) |
| At 31 December | **165,226** | 115,514 | **143,700** | 93,784 |
| Current portion - included in other payables and accruals *(Note 30)* | **(3,786)** | (3,786) | **(2,768)** | (2,768) |
| Non-current portion | **161,440** | 111,728 | **140,932** | 91,016 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 36. DEFERRED INCOME TAX

The movements in deferred income tax liabilities and assets during the year are as follows:

### Deferred income tax liabilities

| | Group | | | | | Company |
|---|---|---|---|---|---|---|
| | Fair value adjustment on investment properties *RMB'000* (Restated) | Fair value adjustment on property, plant and equipment *RMB'000* (Restated) | Fair value adjustment on prepaid operating leases *RMB'000* (Restated) | Fair value changes of available-for-sale financial assets *RMB'000* (Restated) | Total *RMB'000* (Restated) | Fair value changes of available- for-sale financial assets *RMB'000* (Restated) |
| At 1 January 2011 | | | | | | |
| — As previously reported | 4,952 | 19 | 6,299 | 15,792 | 27,062 | 8,937 |
| — Business combination under common control | — | — | — | — | — | — |
| — As restated | 4,952 | 19 | 6,299 | 15,792 | 27,062 | 8,937 |
| Deferred income tax credited to income statement during the year *(Note 11)* | (185) | (5) | (180) | (332) | (702) | — |
| Deferred income tax credited to other comprehensive income during the year *(Note 11)* | — | — | — | (11,230) | (11,230) | (5,375) |
| Gross deferred income tax liabilities at 31 December 2011 | 4,767 | 14 | 6,119 | 4,230 | 15,130 | 3,562 |

# 36. DEFERRED INCOME TAX *(CONTINUED)*

The movements in deferred income tax liabilities and assets during the year are as follows: *(Continued)*

## Deferred income tax liabilities *(Continued)*

| | Group | | | | | Company |
|---|---|---|---|---|---|---|
| | **Fair value adjustment on investment properties** | **Fair value adjustment on property, plant and equipment** | **Fair value adjustment on prepaid operating leases** | **Fair value changes of available-for-sale financial assets** | **Total** | **Fair value changes of available- for-sale financial assets** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) |
| At 1 January 2012 | | | | | | |
| — As previously reported | **4,767** | **14** | **6,119** | **4,230** | **15,130** | **3,562** |
| — Business combination under common control | **—** | **—** | **—** | **—** | **—** | **—** |
| — As restated | **4,767** | **14** | **6,119** | **4,230** | **15,130** | **3,562** |
| Deferred income tax credited to income statement during the year *(Note 11)* | **(206)** | **(14)** | **(230)** | **—** | **(450)** | **—** |
| Deferred income tax charged to other comprehensive income during the year *(Note 11)* | **—** | **—** | **—** | **529** | **529** | **607** |
| Gross deferred income tax liabilities at 31 December 2012 | **4,561** | **—** | **5,889** | **4,759** | **15,209** | **4,169** |

No deferred income tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 36. DEFERRED INCOME TAX *(CONTINUED)*

The movements in deferred income tax liabilities and assets during the year are as follows: *(Continued)*

### Deferred income tax assets

| | Group | | | | |
|---|---|---|---|---|---|
| | **Loss available for offset against future taxable profit** | **Early retirement benefits** | **Fair value changes of available-for-sale financial assets** | **Other deductible temporary differences** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (Restated) | (Restated) | (Restated) | (Restated) | (Restated) |
| At 1 January 2011 | | | | | |
| — As previously reported | — | 13,787 | — | 25,038 | 38,825 |
| — Business combination under common control | — | — | — | — | — |
| — As restated | — | 13,787 | — | 25,038 | 38,825 |
| Deferred income tax credited/(charged) to the income statement during the year *(Note 11)* | 22,282 | (4,897) | 1,221 | (16,739) | 1,867 |
| Deferred income tax credited to the other comprehensive income during the year *(Note 11)* | — | — | 5,975 | — | 5,975 |
| Gross deferred income tax assets at 31 December 2011 | 22,282 | 8,890 | 7,196 | 8,299 | 46,667 |

## 36. DEFERRED INCOME TAX *(CONTINUED)*

The movements in deferred income tax liabilities and assets during the year are as follows: *(Continued)*

### Deferred income tax assets *(Continued)*

| | Group | | | | |
|---|---|---|---|---|---|
| | **Loss available for offset against future taxable profit** | **Early retirement benefits** | **Fair value changes of available-for-sale financial assets** | **Other deductible temporary differences** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2012 | | | | | |
| — As previously reported | **22,282** | **8,890** | **7,196** | **8,299** | **46,667** |
| — Business combination under common control | **—** | **—** | **—** | **—** | **—** |
| — As restated | **22,282** | **8,890** | **7,196** | **8,299** | **46,667** |
| Deferred income tax credited/(charged) to the income statement during the year *(Note 11)* | **19,230** | **(2,257)** | **(405)** | **1,135** | **17,703** |
| Deferred income tax credited to the other comprehensive income during the year *(Note 11)* | **—** | **—** | **215** | **—** | **215** |
| Gross deferred income tax assets at 31 December 2012 | **41,512** | **6,633** | **7,006** | **9,434** | **64,585** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 36. DEFERRED INCOME TAX *(CONTINUED)*

The movements in deferred income tax liabilities and assets during the year are as follows: *(Continued)*

### Deferred income tax assets *(Continued)*

| | Company | | |
|---|---|---|---|
| | Early retirement benefits | Other deductible temporary differences | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2011 | 12,555 | 15,340 | 27,895 |
| Deferred income tax charged to the income statement during the year | (4,429) | (14,433) | (18,862) |
| Deferred income tax assets at 31 December 2011 | 8,126 | 907 | 9,033 |

| | **Company** | | |
|---|---|---|---|
| | **Early retirement benefits** | **Other deductible temporary differences** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2012 | **8,126** | **907** | **9,033** |
| Deferred income tax (charged)/credited to the income statement during the year | **(2,300)** | **57** | **(2,243)** |
| Deferred income tax assets at 31 December 2012 | **5,826** | **964** | **6,790** |

# 36. DEFERRED INCOME TAX *(CONTINUED)*

## Deferred income tax assets *(Continued)*

The principal components of the Group's deductible temporary differences and unused tax losses for which no deferred income tax assets were recognised in the consolidated financial statements are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Tax losses — PRC | **175,270** | 239,663 |
| Assets provision | **202,712** | 187,757 |
| Other deductible temporary differences | **939** | 6,068 |
| | **378,921** | 433,488 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| For purpose of disclosure: | | | | |
| Deferred income tax assets | **64,585** | 46,667 | **6,790** | 9,033 |
| Deferred income tax liabilities | **(15,209)** | (15,130) | **(4,169)** | (3,562) |
| Net book amount at 31 December | **49,376** | 31,537 | **2,621** | 5,471 |

Deferred income tax assets have not been recognised in respect of these unused tax losses and other deductible temporary differences, as they have arisen in companies that have been loss-making for some time and their future profit streams are unpredictable, rendering the underlying recoverability of the deferred income tax assets uncertain. The unused tax losses will be available within five years for offsetting against future taxable profits of the companies in which the losses arose.

There were no income tax consequences in relation to the payment of dividends by the Company to its shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 37. SHARE CAPITAL

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of shares *(thousand)*** | **Nominal value *RMB'000*** | Number of shares *(thousand)* | Nominal value *RMB'000* |
| Registered, issued and fully paid: | | | | |
| Domestic shares of RMB1.00 each | | | | |
| — held by Holding Company | **443,910** | **443,910** | 443,910 | 443,910 |
| — held by other A share shareholders | **150,000** | **150,000** | — | — |
| H shares of RMB1.00 each | **401,990** | **401,990** | 401,990 | 401,990 |
| | **995,900** | **995,900** | 845,900 | 845,900 |

A summary of the movement in the Company's issued share capital is as follows:

| | **Domestic shares held by Holding Company** *RMB'000* | **Domestic shares held by other A share shareholders** *RMB'000* | **H shares** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| As at 1 January and 31 December 2011 | 443,910 | — | 401,990 | 845,900 |
| Issue of new A shares *(note 37(b))* | — | 150,000 | — | 150,000 |
| As at 31 December 2012 | 443,910 | 150,000 | 401,990 | 995,900 |

(a) The Domestic shares rank pari passu, in all material respects, with the H shares. However, the transfer of Domestic shares is subject to certain restrictions imposed by the PRC law from time to time.

(b) On 8 August 2012, the Company issued 150,000,000 new A shares at RMB5.4 per share. Net proceeds resulting from the share issuance amounted to approximately RMB773,733,000 after deducting the share issuance costs of approximately RMB36,267,000, out of which RMB150,000,000 was recorded in share capital and RMB623,733,000 was credited to share premium. The listing and trading of the A shares on the Shanghai Stock Exchange commenced on 8 August 2012.

## 38. RESERVES

### (a) Group

Group reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve mainly comprised: (i) the excess/deficiency of the carrying amount of net assets over the purchase consideration for subsidiaries acquired under common control, (ii) deferred income recognised in equity pursuant to relevant regulations and guidance issued by the Ministry of Finance in the PRC, and (iii) the excess/deficiency of the considerations paid for/received from over the changes in the carrying amounts of non-controlling interests in the acquisitions of further interests in subsidiaries or disposal of part interests in subsidiaries, respectively.

In accordance with PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its annual statutory profit after tax, as determined in accordance with PRC accounting standards and regulations to a statutory surplus reserve (the "SSR"). No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

Moreover, upon a resolution made by the shareholders, a certain percentage of its annual statutory profit after tax is transferred to the general surplus reserve (the "GSR"). During the year, no GSR (2011: Nil), as dealt with in the Group's consolidated financial statements, were appropriated by the Company and its subsidiaries.

The SSR and GSR may only be used to offset accumulated losses, expand the production operations of the Company, or to increase its paid-up capital.

Pursuant to the relevant laws and regulations, certain subsidiaries of the Group which are Sino-foreign joint ventures registered in the PRC, certain profits of these subsidiaries are required to be and have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

During the year, the Company and its subsidiaries' aggregate appropriations to the SSR, the reserve fund and the enterprise expansion fund, as dealt with in the Group's consolidated financial statements, were approximately RMB43,096,000 (2011: approximately RMB27,472,000).

During the year, no reserve fund (2011: Nil) and no enterprise expansion fund (2011: Nil), as dealt with in the Group's consolidated financial statements, were appropriated by the Company and its subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 38. RESERVES *(CONTINUED)*

### (a) Group *(Continued)*

The associate did not make any appropriation to the SSR in the current and prior years.

Pursuant to the relevant PRC regulations, YTO Finance, being a non-bank subsidiary financial institution of the Group, is required to transfer a certain amount of its profit, based on 1% of realised net profit for the year (2011: determined based on 1% of realised net profit for the year), to the general and statutory fund through its profit appropriation.

Pursuant to the CaiQi [2012] No.16 "Measures for the Extraction and Management of the Production Safety fund for the enterprises" issued by the Ministry of Finance and the Safety Production General Bureau, the Group is required to accrue production safety fund to improve the production safety.

### (b) Company

| | Note | Share premium account *RMB'000* | Capital reserve *RMB'000* | Statutory surplus reserve *RMB'000* | General surplus reserve *RMB'000* | Available-for-sale financial assets reserve *RMB'000* | Retained earnings *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | | 1,539,938 | 7,990 | 109,429 | 48,388 | 50,643 | 141,734 | 1,898,122 |
| Profit for the year | 12 | — | — | — | — | — | 274,423 | 274,423 |
| Changes in fair values of available-for-sale financial assets | | — | — | — | — | (30,461) | — | (30,461) |
| Transfer to/(from) reserves | | — | — | 27,472 | — | — | (27,472) | — |
| At 31 December 2011 | | 1,539,938 | 7,990 | 136,901 | 48,388 | 20,182 | 388,685 | 2,142,084 |

## 38. RESERVES *(CONTINUED)*

### (b) Company *(Continued)*

| | Note | Share premium account RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | General surplus reserve RMB'000 | Available-for-sale financial assets reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | | 1,539,938 | 7,990 | 136,901 | 48,388 | 20,182 | 388,685 | 2,142,084 |
| Profit for the year | 12 | — | — | — | — | — | 431,952 | 431,952 |
| Changes in fair values of available-for-sale financial assets | | — | — | — | — | 3,441 | — | 3,441 |
| Issue of new A shares | 37 | 623,733 | — | — | — | — | — | 623,733 |
| Proposed final 2012 dividend | 13 | — | — | — | — | — | (99,590) | (99,590) |
| Transfer to/(from) reserves | | — | — | 43,096 | — | — | (43,096) | — |
| At 31 December 2012 | | 2,163,671 | 7,990 | 179,997 | 48,388 | 23,623 | 677,951 | 3,101,620 |

During the year, the Company appropriations to the SSR amounted to approximately RMB43,096,000 (2011: approximately RMB27,472,000).

At the end of the reporting period, the Company did not utilise any of the SSR.

As at 31 December 2012, the Company has retained earnings of approximately RMB677,951,000 (2011: approximately RMB388,685,000) available for distribution by way of cash or cash in kind.

As at 31 December 2012, in accordance with PRC Company Law, an amount of approximately RMB2,163,671,000 (2011: approximately RMB1,539,938,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

### (a) Acquisition of additional interests in subsidiaries in the current year

In 2012, the Group acquired additional equity interest of two subsidiaries from the Holding Company and independent third parties. These two subsidiaries' principal activities are manufacture and sale of construction machinery and provision of financial services.

(i) On 31 May 2012, the Company acquired an additional 24% equity interest in Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") at a consideration of approximately RMB1. The carrying amount of the non-controlling interests in YLST on the date of acquisition was a deficit balance of approximately RMB2,982,000. The Group recognised a decrease in non-controlling interests of approximately RMB2,982,000 and a decrease in equity attributable to owners of the Company of approximately RMB2,982,000. The effect of changes in the ownership interest of YLST on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2012** |
|---|---|
| | ***RMB'000*** |
| Carrying amount of non-controlling interests acquired (net liabilities) | **(2,982)** |
| Consideration paid to non-controlling interests | **—** |
| Excess of consideration paid recognised in capital reserve within equity | **(2,982)** |

(ii) On 30 June 2012, the Company acquired an additional 0.8% equity interest in YTO Finance at a consideration of approximately RMB4,624,000. The carrying amount of the non-controlling interests in YTO Finance on the date of acquisition was a surplus balance of approximately RMB4,917,000. The Group recognised a decrease in non-controlling interests of approximately RMB4,917,000 and a increase in equity attributable to owners of the Company of approximately RMB293,000. The effect of changes in the ownership interest of YTO Finance on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2012** |
|---|---|
| | ***RMB'000*** |
| Carrying amount of non-controlling interests acquired | **4,917** |
| Consideration paid to non-controlling interests | **(4,624)** |
| Difference of consideration paid recognised in capital reserve within equity | **293** |

## 39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES *(CONTINUED)*

### (a) Acquisition of additional interests in subsidiaries in the current year *(Continued)*

(iii) On 14 November 2012, the Group entered into a Sale and Purchase Agreement with the Holding Company to acquire a 100% equity interest in YTO (Luoyang) Flag Auto-Body Co., Ltd ("YTO Flag") at a consideration of approximately RMB158,555,000. YTO Flag was engaged in the production and sale of covering parts, driving cabins, auto parts and other components of automobiles, agricultural and construction machinery.

As at 31 December 2011, the Holding Company held 51.39% of equity interest and subsequently acquired an additional equity interest on 31 July 2012 in YTO Flag from YTO (Luoyang) Kintra Equipment Science & Technology Company Limited and independent third parties for a consideration of approximately RMB 112,840,000. Upon the completion of this further acquisition, YTO Flag became a wholly owned subsidiary of the Holding Company. As both the Company and YTO Flag are under the common control of the Holding Company immediately before and after the acquisition, the Group has applied merger accounting as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for business combinations under common control. Accordingly, the financial statements of YTO Flag have been consolidated since the date of the earliest financial period presented, as if the acquisition of 51.39% equity interest had occurred at that time and 100% equity interest had occurred after 31 July 2012, pursuant to the acquisition stages of the Holding Company.

The carrying amount of the non-controlling interests in YTO Flag on the date of acquisition was a surplus balance of approximately RMB88,832,000. The Group recognised a decrease in non-controlling interests of approximately RMB88,832,000 and an increase in equity attributable to equity holders of the Company of approximately RMB88,832,000. The effect of changes in the ownership interest of YTO Flag on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2012** <br> ***RMB'000*** |
|---|---|
| Carrying amount of non-controlling interests acquired | **88,832** |
| Consideration paid to non-controlling interests | **—** |
| Difference of consideration paid recognised in capital reserve within equity | **88,832** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES *(CONTINUED)*

### (b) Acquisition of additional interests in subsidiaries in previous year

(i) On 30 September 2011, the Company acquired an additional 26% equity interest in YLST at a consideration of approximately RMB45. The carrying amount of the non-controlling interests in YLST on the date of acquisition was a deficit balance of approximately RMB3,420,000. The Group recognised a decrease in non-controlling interests of approximately RMB3,420,000 and a decrease in equity attributable to owners of the Company of approximately RMB3,420,000. The effect of changes in the ownership interest of YLST on the equity attributable to owners of the Company during the year 2011 is summarised as follows:

| | 2011<br>*RMB'000* |
|---|---|
| Carrying amount of non-controlling interests acquired (net liabilities) | (3,420) |
| Consideration paid to non-controlling interests | — |
| Excess of consideration paid recognised in capital reserve within equity | (3,420) |

(ii) On 31 May 2011, the Company acquired an additional 13.18% equity interest in YTO (Luoyang) Forklift Co., Limited ("YTO Forklift") at a consideration of approximately RMB1,047,000.The carrying amount of the non-controlling interests in YTO Forklift on the date of acquisition was a deficit balance of approximately RMB917,000. The Group recognised a decrease in non-controlling interests of approximately RMB917,000 and a decrease in equity attributable to owners of the Company of approximately RMB1,964,000. The effect of changes in the ownership interest of YTO Forklift on the equity attributable to owners of the Company during the year 2011 is summarised as follows:

| | 2011<br>*RMB'000* |
|---|---|
| Carrying amount of non-controlling interests acquired (net liabilities) | (917) |
| Consideration paid to non-controlling interests | (1,047) |
| Excess of consideration paid recognised in capital reserve within equity | (1,964) |

## 40. ACQUISITION OF SUBSIDIARIES

### (a) Acquisition of a subsidiary in the current year

On 31 May 2012, the Group acquired a further 60% equity interest in YTO Shunxing (Luoyang) Spare Parts Co., Ltd. ("YTO Shunxing") at a consideration of approximately RMB20,765,000 from independent third parties. Prior to the acquisition, the Group held a 40% equity interest in YTO Shunxing. YTO Shunxing is principally engaged in the manufacture, sale and service of forged steel crankshafts.

The acquisition was accounted for using the purchase method.

Net assets acquired in the transactions are as follows:

| | *Note* | **2012 Fair value** *RMB'000* |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment | 15 | **22,673** |
| Inventories | | **4,402** |
| Trade and bill receivables | | **7,243** |
| Prepayments, deposits and other receivables | | **1,341** |
| Cash and cash equivalents | | **5,242** |
| Trade and bill payables | | **(5,623)** |
| Other payables and accruals | | **(670)** |
| Net assets acquired | | **34,608** |
| Interest transferred from associates | | **(13,843)** |
| Total consideration | | **20,765** |
| Satisfied by: | | |
| Cash | | **20,765** |
| Net cash outflow in respect of the net assets acquired: | | |
| Cash consideration paid | | **(20,765)** |
| Cash and cash equivalents acquired | | **5,242** |
| Net cash outflow | | **(15,523)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 40. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

### (a) Acquisition of a subsidiary in the current year *(Continued)*

Included in the revenue and loss for the year 2012 are approximately RMB4,839,000 and RMB484,000 attributable to the additional business generated by this new acquired subsidiary.

Had the business combination been effected on 1 January 2012, the revenue of the Group would be approximately RMB11,322,782,000, and profit for the year of the Group would be approximately RMB485,168,000. The directors of the Group consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and a reference point for comparison in future periods.

### (b) Acquisition of a subsidiary in previous year

On 1 October 2011, a 51% owned subsidiary of the Group, Luoyang Tractors Research Institute Co., Ltd ("LTRI") acquired a further 70% equity interest in Luoyang Tuoqi Engineering Company Limited ("Touqi Engineering") for a consideration of approximately RMB2,800,000 from independent third parties. Prior to the acquisition, LTRI held a 30% equity interest in Tuoqi Engineering. Tuoqi Engineering is principally engaged in the provision of technology development, transfer and consultancy services.

The acquisition was accounted for using the purchase method.

# 40. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

## (b) Acquisition of a subsidiary in previous year *(Continued)*

Net assets acquired in the transaction are as follows:

| | *Note* | 2011<br>Fair value<br>*RMB'000* |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment | 15 | 374 |
| Inventories | | 7,825 |
| Trade and bill receivables | | 4,584 |
| Prepayments, deposits and other receivables | | 285 |
| Cash and cash equivalents | | 1,074 |
| Trade and bill payables | | (5,278) |
| Other payables and accruals | | (983) |
| Current income tax liabilities | | (34) |
| Net assets acquired | | 7,847 |
| Interest transferred from associates | | (2,354) |
| Gain on bargain purchase | 6,8 | (2,693) |
| Total consideration | | 2,800 |
| Satisfied by: | | |
| Cash | | 2,800 |
| Net cash outflow in respect of the net assets acquired: | | |
| Cash consideration paid | | (2,800) |
| Cash and bank balances acquired | | 1,074 |
| Net cash outflow | | (1,726) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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## 40. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

### (b) Acquisition of a subsidiary in previous year *(Continued)*

Included in the revenue and profit for the year 2011 are approximately RMB7,748,000 and RMB429,000 attributable to the additional business generated by these newly acquired subsidiaries.

Had the business combination been effected on 1 January 2011, the revenue of the Group would be approximately RMB11,354,405,000, and profit for the year of the Group would be approximately RMB457,733,000. The directors of the Group consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and a reference point for comparison in future periods.

## 41. BUSINESS COMBINATION UNDER COMMON CONTROL

### (a) Acquisition of interests in subsidiaries in the current year

As at 31 December 2012, the Group acquired a 100% equity interest in YTO Flag and YTO Axle from the Holding Company at considerations of approximately RMB158,789,000 and RMB224,618,000, respectively. The principally activities of YTO Flag are manufacture and sale of covering parts, driving cabins, auto parts and other components and the principally activities of YTO Axle are manufacture and sale of offroad machinery drive axles. The financial statements of YTO Flag and YTO Axle are consolidated by the Group as the Group has control over operating and financial policies of these entities.

As mentioned in Note 2.1(a) to the consolidated financial statements, the Group has applied merger accounting as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for business combinations under common control. Accordingly, the above subsidiaries have been consolidated since 1 January 2011, the earliest financial period presented, as if the acquisition had been occurred at that time.

# 41. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

## (a) Acquisition of interests in subsidiaries in the current year *(Continued)*

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2012, 2011 and 2010 is as follows:

**2012**

| | The Group excluding YTO Flag and YTO Axle | YTO Flag and YTO Axle | Adjustments | Consolidated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Assets and liabilities** | | | | |
| Investments in subsidiaries | 383,407 | — | (383,407) | — |
| Other non-current assets | 3,199,408 | 346,123 | — | 3,545,531 |
| Cash and cash equivalents | 1,813,034 | 43,088 | (30,783) | 1,825,339 |
| Other current assets | 5,420,495 | 303,149 | (15,112) | 5,708,532 |
| Customer deposits | (1,141,070) | — | 30,783 | (1,110,287) |
| Other current liabilities | (3,896,128) | (370,606) | 15,112 | (4,251,622) |
| Other non-current liabilities | (825,609) | — | — | (825,609) |
| **Net assets** | 4,953,537 | 321,754 | (383,407) | 4,891,884 |
| **Equity** | | | | |
| **Attributable to owners of the Company** | | | | |
| Issued/paid up capital | 995,900 | 100,000 | (100,000) | 995,900 |
| Reserves | 3,332,559 | 221,754 | (283,407) | 3,270,906 |
| Proposed final dividend | 99,590 | — | — | 99,590 |
| | 4,428,049 | 321,754 | (383,407) | 4,366,396 |
| **Non-controlling interests** | 525,488 | — | — | 525,488 |
| **Total equity** | 4,953,537 | 321,754 | (383,407) | 4,891,884 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 41. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

### (a) Acquisition of interests in subsidiaries in the current year *(Continued)*

**2011**

| | The Group excluding YTO Flag and YTO Axle | YTO Flag and YTO Axle | Adjustments | Consolidated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Restated) |
| **Assets and liabilities** | | | | |
| Other non-current assets | 3,117,922 | 121,959 | — | 3,239,881 |
| Cash and cash equivalents | 1,389,091 | 59,957 | (54,353) | 1,394,695 |
| Other current assets | 4,979,709 | 208,013 | (49,364) | 5,138,358 |
| Customer deposits | (1,112,774) | — | 54,354 | (1,058,420) |
| Other current liabilities | (4,242,498) | (213,399) | 49,713 | (4,406,184) |
| Other non-current liabilities | (355,862) | — | — | (355,862) |
| **Nets assets** | 3,775,588 | 176,530 | 350 | 3,952,468 |
| **Equity** | | | | |
| **Attributable to owners of the Company** | | | | |
| Issued/paid up capital | 845,900 | 30,000 | (30,000) | 845,900 |
| Reserves | 2,477,600 | 146,530 | (55,461) | 2,568,669 |
| Proposed final dividend | — | — | — | — |
| | 3,323,500 | 176,530 | (85,461) | 3,414,569 |
| **Non-controlling interests** | 452,088 | — | 85,811 | 537,899 |
| **Total equity** | 3,775,588 | 176,530 | 350 | 3,952,468 |

## 41. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

### (a) Acquisition of interests in subsidiaries in the current year *(Continued)*

2010

| | The Group excluding YTO Flag and YTO Axle | YTO Flag and YTO Axle | Adjustments | Consolidated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Restated) |
| **Assets and liabilities** | | | | |
| Other non-current assets | 2,462,507 | 95,666 | — | 2,558,173 |
| Cash and cash equivalents | 1,182,835 | 68,977 | (68,253) | 1,183,559 |
| Other current assets | 4,972,288 | 157,112 | (31,472) | 5,097,928 |
| Customer deposits | (540,420) | — | 68,253 | (472,167) |
| Other current liabilities | (3,722,024) | (169,813) | 31,722 | (3,860,115) |
| Other non-current liabilities | (811,158) | — | — | (811,158) |
| **Nets assets** | 3,544,028 | 151,942 | 250 | 3,696,220 |
| **Equity** | | | | |
| **Attributable to owners of the Company** | | | | |
| Issued/paid up capital | 845,900 | 30,000 | (30,000) | 845,900 |
| Reserves | 2,238,208 | 121,942 | (43,609) | 2,316,541 |
| Proposed final dividend | 67,672 | — | — | 67,672 |
| | 3,151,780 | 151,942 | (73,609) | 3,230,113 |
| **Non-controlling interests** | 392,248 | — | 73,859 | 466,107 |
| **Total equity** | 3,544,028 | 151,942 | 250 | 3,696,220 |

The above adjustments represent adjustments to eliminate the paid-up capital of YTO Flag and YTO Axle against the Group's investment costs in YTO Flag and YTO Axle, the cash deposit in YTO Finance by YTO Flag and YTO Axle, and current accounts between the Group and YTO Flag and YTO Axle as at 31 December 2012, 2011 and 2010, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 41. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

### (a) Acquisition of interests in subsidiaries in the current year *(Continued)*

The effect of the business combination of entities under common control, described above, on the Group's basic and diluted earnings per share for the year ended 31 December 2011 is as follows:

| | Impact on basic earnings per share *RMB* | Impact on diluted earnings per share *RMB* |
|---|---|---|
| Reported figures before restatement | 48.57 cents | 48.57 cents |
| Restatement arising from business combinations of entities under common control | 3.45 cents | 3.45 cents |
| Restated | 52.02 cents | 52.02 cents |

The effect of business combinations of entities under common control described above on the Group's net profit for the year ended 31 December 2011 is as follows:

| | Group Net profit *RMB'000* |
|---|---|
| Reported figures before restatement | 457,505 |
| Restatement arising from business combination of entities under common control | 56,787 |
| Restated | 514,292 |

# 41. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

## (b) Acquisition of interests in subsidiaries in the previous year

In 2011, the Group acquired a 86.82% equity interest in YTO Forklift, which is principally engaged in manufacturing and sale of forklift from the Holding Company at a consideration of approximately RMB6,896,000. In addition, the Group and its subsidiary CAMACO acquired, 100% and 93.58% equity interests in YTO International and YITWO Agro-Industrial, respectively, from the Holding Company and its subsidiaries at a considerations of approximately RMB81,393,000 and RMB5,002,000, respectively. The principal activities of YTO International and YITWO Agro-Industrial are sale of agricultural and construction machinery.

As both the Company, YTO Forklift, YTO International and YITWO Agro-Industrial are under the common control of the Holding Company immediately before and after the acquisition, these transactions were accounted for as common control business combinations, using merger accounting for all periods presented herein as if merger had been consummated since the inception of common control. In accordance with the requirements under merger accounting, the consolidated statement of comprehensive income for the year ended 31 December 2011 has been restated on an "as if" combined basis. As a consequence, total revenue and loss during the year ended 31 December 2011 has been increased by approximately RMB559,252,000 and approximately RMB9,792,000, respectively.

# 42. RETIREMENT BENEFITS

(a) The Group participates in various defined contribution retirement benefits schemes operated by the local municipal governments and is required to contribute 20% (2011: 20%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.

(b) In addition, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on various factors, including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of these early retirees. The costs of early retirement benefits are recognised in the period in which employees opt for early retirement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 43. CONTINGENT LIABILITIES

The contingent liabilities not provided for in the Group's and the Company's financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Financial guarantees to the facilities utilized by: | | | | |
| — subsidiaries *(note a)* | **—** | — | **87,541** | 56,000 |
| — related companies *(note b)* | **6,000** | — | **—** | — |
| — third parties *(note c)* | **751,500** | 351,720 | **751,500** | 351,720 |
| | **757,500** | 351,720 | **839,041** | 407,720 |

(a) At 31 December 2012, the Company has provided guarantees of approximately RMB16,000,000 (2011: approximately RMB10,000,000) and approximately RMB71,541,000 (2011: approximately RMB46,000,000) to YTO Finance and certain banks, respectively, as security for credit facilities granted to certain subsidiaries. The facilities were utilised in aggregate to the extent of approximately RMB87,541,000 (2011: approximately RMB56,000,000).

(b) At 31 December 2012, the Group has provided guarantees of approximately RMB14,000,000 to YTO Finance as security for credit facilities granted to related companies (fellow subsidiaries and associates of the Holding Company) (2011: Nil). The facilities were utilised in aggregate to the extent of approximately RMB6,000,000 (2011: Nil).

(c) At 31 December 2012, the Group has provided guarantees of approximately RMB1,384,100,000 (2011: approximately RMB1,160,300,000) to certain banks in the PRC as security for credit facilities granted to certain customers. The facilities were utilised in aggregate to the extent of approximately RMB751,500,000 (2011: approximately RMB351,720,000).

## 44. PLEDGE OF ASSETS

Details of the Group's bill payables and borrowings, which are secured by certain assets of the Group, are included in Notes 29 and 33 to the consolidated financial statements, respectively.

# 45. COMMITMENTS

## (a) Capital commitments

The Group and the Company had the following capital commitments as at the end of reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Contracted, but not provided for: | | | | |
| Purchase of plant and machinery | **130,922** | 132,149 | **130,922** | 120,892 |
| Authorised, but not contracted for: | | | | |
| Purchase of plant and machinery | **1,676,270** | 1,415,200 | **931,370** | 852,829 |
| | **1,807,192** | 1,547,349 | **1,062,292** | 973,721 |

## (b) Operating lease commitments — as lessor

The Group leases out certain of its buildings (Note 15) under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Within one year | **400** | 1,206 | **400** | 1,037 |
| In the second to fifth years, inclusive | **400** | 1,059 | **400** | 930 |
| | **800** | 2,265 | **800** | 1,967 |

None of the leases includes contingent rentals for the years ended 31 December 2012 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 45. COMMITMENTS *(CONTINUED)*

### (c) Operating lease commitment — as lessee

The Group leases certain land, buildings, plant and machinery under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to two years with renewal options, and those for plant and machinery are for terms of one year with renewal options.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | (Restated) | | |
| Within one year | **5,374** | 9,881 | **4,295** | 3,579 |
| In the second to fifth years, inclusive | **485** | — | **—** | — |
| | **5,859** | 9,881 | **4,295** | 3,579 |

None of the leases includes contingent rentals for the years ended 31 December 2012 and 2011.

## 46. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the Parent, which is a state-owned enterprise established in the PRC. The Parent itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (revised), "Related Party Disclosure", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include the Parent and its subsidiaries (other than the Group), other government-related entities and subsidiaries ("other stated-owned enterprises"), other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and the Parent as well as their close family members. For the purposes of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

# 46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year.

## (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows:

| | *Note* | **2012** **RMB'000** | 2011 *RMB'000* (Restated) |
|---|---|---|---|
| Sale of raw materials, finished goods and components | (i) | **252,122** | 300,295 |
| Purchases of raw materials and components | (ii) | **1,188,751** | 1,219,706 |
| Purchases of utilities | (iii) | **91,416** | 127,395 |
| Fees paid for welfare and support services | (iv) | **55,620** | 41,530 |
| Fees paid for transportation services | (iv) | **68,470** | 69,685 |
| Research and development expenses paid | (v) | **2,275** | 213 |
| Fees paid for the use of land | (vi) | **6,135** | 11,614 |
| Fees paid for the use of a trademark | (vii) | **—** | 15,548 |
| Rentals paid | (viii), (ix) | **5,161** | 9,299 |
| Rental income received in respect of buildings | (x) | **4,475** | 4,927 |
| Purchases of plant and machinery | (xi) | **12,450** | 47,048 |
| Purchases of land use rights | (xii) | **—** | 418,450 |
| Purchases of trademark | (xii) | **—** | 59,527 |
| Acquisition of subsidiaries | (xiii) | **383,407** | 93,291 |
| Interest income and discounted bill charges | (xiv) | **34,148** | 30,020 |
| Interest paid for customer deposits | (xv) | **8,072** | 3,489 |
| Research and development income received | (xvi) | **6,310** | 9,850 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

### (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows: *(Continued)*

*Notes:*

(i) Pursuant to relevant agreements, the pricing in respect of the sale of raw materials, finished goods and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(ii) Pursuant to the relevant agreements, the pricing in respect of purchases of raw materials and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iii) Pursuant to relevant agreements, the pricing in respect of purchases of utilities is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iv) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2011: 0.2%) of the Company's net annual turnover, and non-routine research and development service fees are determined separately under mutually agreed terms.

(vi) Pursuant to the relevant agreements, the annual rental for the use of land is approximately RMB6,135,000 (2011: approximately RMB11,614,000) subject to a further land rental adjustment announced by the relevant state land administration authorities.

(vii) Pursuant to relevant agreements, the pricing for the use of a trademark was charged at a rate ranging from 0.15% to 0.2% of the Company's net annual turnover and 0.4% of YLDC's net annual turnover for the year 2011.

## 46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

### (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows: *(Continued)*

*Notes: (Continued)*

(viii) Pursuant to the relevant agreements, the rentals of buildings were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 5% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.5% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.

(ix) Pursuant to the relevant agreements, the rentals of plant and machinery were charged with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 10% of the net book value of the facilities). The lessee will also bear the related sales tax, currently at 5.6% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.

(x) Pursuant to the relevant agreements, the rental income of buildings received is determined with reference to the market rental, or, if there is no applicable market rental, annual depreciation expenses plus management fees (management fees should not be more than 5% of the net book value of the relevant premises). The lessee will also bear the related sales tax, currently at 5.6% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.

(xi) The purchases and sale of plant and machinery were conducted under mutually agreed terms.

(xii) The purchases and sale of land use rights and trademark were conducted under mutually agreed terms. The land use rights and trademark transferred had been valued by independent professional valuers on market basis.

(xiii) The acquisition of subsidiaries conducted under mutually agreed terms. Please refer to Note 41 respectively for more details.

(xiv) The interest income related to the bills discounting service rendered by and the loans granted by YTO Finance to members of the Holding Group. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.

(xv) The interest paid for customer deposits relates to the customer deposits placed in YTO Finance by the Holding Company and its subsidiaries and associates. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

### (a) The material transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (fellow subsidiaries and associates of the Holding Company), during the year are summarised as follows: *(Continued)*

*Notes: (Continued)*

(xvi) Pursuant to relevant agreements, the pricing in respect of routine research and development services rendered is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

### (b) Other transactions with related parties

**(i) Designated deposits and designated loans**

As at the end of the reporting period, the Holding Company has placed an aggregate amount of approximately RMB47,000,000 (2011: approximately RMB50,000,000) with YTO Finance to provide designated loans to the fellow subsidiaries and an associate of the Holding Company.

Since the credit risk is borne by the depositors, the related assets and liabilities of these lending transactions by the depositors are not included in the consolidated financial statements.

**(ii) Material transactions carried out between the Group and the Parent and its subsidiaries during the year**

During the year, the Group sold raw materials, finished goods and components of approximately RMB31,847,000 (2011: approximately RMB44,591,000 (restated)) and purchased raw materials and components of approximately RMB6,955,000 (2011: approximately RMB2,693,000 (restated)) from the Parent and its subsidiaries.

The terms of transactions are equivalent to similar transactions carried out between the Group and the Holding Company and its subsidiaries and related companies (disclosed in Note 46(a)).

## 46. RELATED PARTY TRANSACTIONS *(CONTINUED)*

### (c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from/to the Holding Company, and the Group's loan to and deposits from the Holding Company as at the end of reporting period are disclosed in Notes 22, 24, 25, 29, 30 and 31 to the consolidated financial statements.

(ii) Details of the Group's amounts due from and deposits from its associates as at the end of the reporting period are included in Notes 24 and 31 to the consolidated financial statements, respectively.

(iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding Company) as at the end of the reporting period are disclosed in Notes 22, 24, 25, 29, 30 and 31 to the consolidated financial statements.

(iv) Details of the Group's amounts due to the non-controlling interests as at the end of the reporting period are disclosed in Note 30 to the consolidated financial statements.

### (d) Significant transactions with other government-related entities

During the years ended 31 December 2012 and 2011, the Group's significant transactions with other state-owned enterprises (excluding the Parent and its subsidiaries) are a large portion of its sales of goods and purchases of raw materials, electricity, property, plant and equipment and services. In addition, substantially all restricted deposits, time deposits, cash and cash equivalents and borrowings as of 31 December 2012 and 2011 and the relevant interest earned or paid during the year are transacted with banks and other financial institutions controlled by the PRC government.

### (e) Compensation of key management personnel of the Group

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short term employee benefits | **1,510** | 1,844 |
| Post-employment benefits | **240** | 238 |
| Total compensation paid to key management personnel | **1,750** | 2,082 |

Further details of directors' emoluments are included in Note 9 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

*31 December 2012*

## 47. COMPARATIVE AMOUNTS

Comparative figures have been adjusted to apply merger accounting for the business combination under common control, as explained in note 2.1 and 41 to the financial statements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

## 48. SUBSEQUENT EVENTS

1) On 15 November 2012, the Company and the Holding Company entered into an equity transfer agreement to acquire a 100% equity interest in YTO (Luoyang) Foundry Company Limited ("YTO Foundry") at consideration of approximately RMB104,478,000. This transaction was completed on 22 January 2013.

2) Following the approval by the shareholders during the extraordinary general meeting held on 9 November 2012 and by the China Securities Regulatory Commission ("CSRC") issued on 5 February 2013, the Company was allowed to issue corporate bonds to the public with an aggregate principal amount of not more than RMB1,500,000,000 ("the Corporate Bonds") in the PRC. The Corporate Bonds shall be issued in multiple tranches. The issuance amount of the first tranche shall not less than 50% of the total issuance amount and shall be completed within 6 months from the date on which the approval of the CSRC is obtained. Other tranches of the Corporate Bonds shall be issued and completed within 24 months from the date on which the approval of CSRC is obtained. The funds raised (less issuing expenses) were used to supplement the Company's capital.

3) On 8 February 2013, the Company, the Parent, Changchun State-owned Capital Investment and Operation Co., Ltd ("Changchun Investment") and Changtuo Agricultural Machinery Equipment Group Company Limited ("Changtuo Company") entered into the an agreement, pursuant to which the Company agreed to make a capital contribution of RMB94,250,000 in cash. Upon completion of the transaction, the registered capital of Changtuo Company will increase from RMB188,000,000 to RMB282,000,000 and the equity interest in Changtuo Company will be owned one-third by each of the Parent, Changchun Investment and the Company.