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)

东方红

2009

ANNUAL REPORT


新的生活從东方红開始

CONTENTS

CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY
First Tractor Company Limited

REGISTERED ADDRESS OF THE COMPANY
154 Jian She Road
Luoyang, Henan Province
The People's Republic of China (the "**PRC**")
Tel: (86 379) 6496 7038
Fax: (86 379) 6496 7438

WEBSITE OF THE COMPANY
http://www.first-tractor.com.cn

BUSINESS REGISTRATION NUMBER
410000400013049

LEGAL REPRESENTATIVE OF THE COMPANY
Liu Dagong

HEAD OF INVESTOR RELATIONS DEPARTMENT
Yu Lina

JOINT COMPANY SECRETARIES
Yu Lina
Liu Pui Yee

AUTHORISED REPRESENTATIVES OF THE COMPANY
Dong Jianhong
Yu Lina

PRINCIPAL BANKERS OF THE COMPANY
Industrial and Commercial Bank of China
Bank of Communications
China Construction Bank
Bank of China
China Everbright Bank
Agricultural Bank of China

INTERNATIONAL AUDITORS
UHY Vocation HK CPA Limited
3rd Floor, Malaysia Building
50 Gloucester Road
Wanchai
Hong Kong

LEGAL ADVISERS
The PRC
Commerce & Finance Law offices
6F NCI Tower
A12 Jianguo Menwai Avenue
Beijing City, the PRC
Postal Code: 100022

Hong Kong
Li & Partners
22/F, Worldwide House
Central, Hong Kong

H SHARES LISTING
The Stock Exchange of Hong Kong Limited
Stock Code: 00038

H SHARES REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

ADDRESS FOR INQUIRIES
The PRC
Secretarial office of First Tractor Company Limited
154 Jian She Road
Luoyang, Henan Province
the PRC
Tel: (86 379) 6496 7038
Fax: (86 379) 6496 7438
E-mail address: msc0038@ytogroup.com

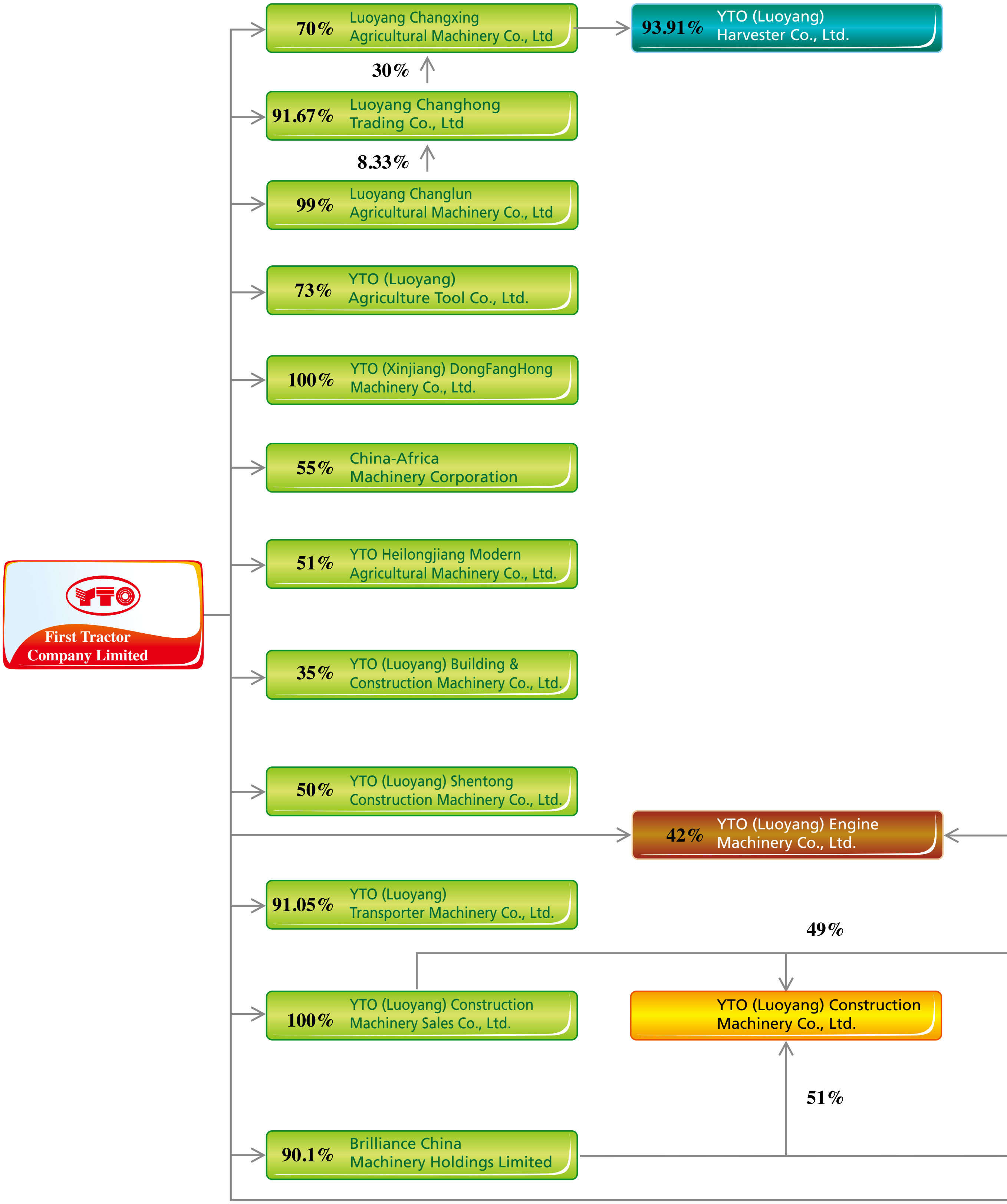
Hong Kong
Li & Partners
22/F, Worldwide House
Central, Hong Kong
Tel: (852) 2501 0088
Fax: (852) 2501 0028

INVESTOR AND MEDIA RELATIONS
Wonderful Sky Financial Group Limited
Unit 3103, 31/F, Office Tower, Convention Plaza
1 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2851 1038
Fax: (852) 2815 1352

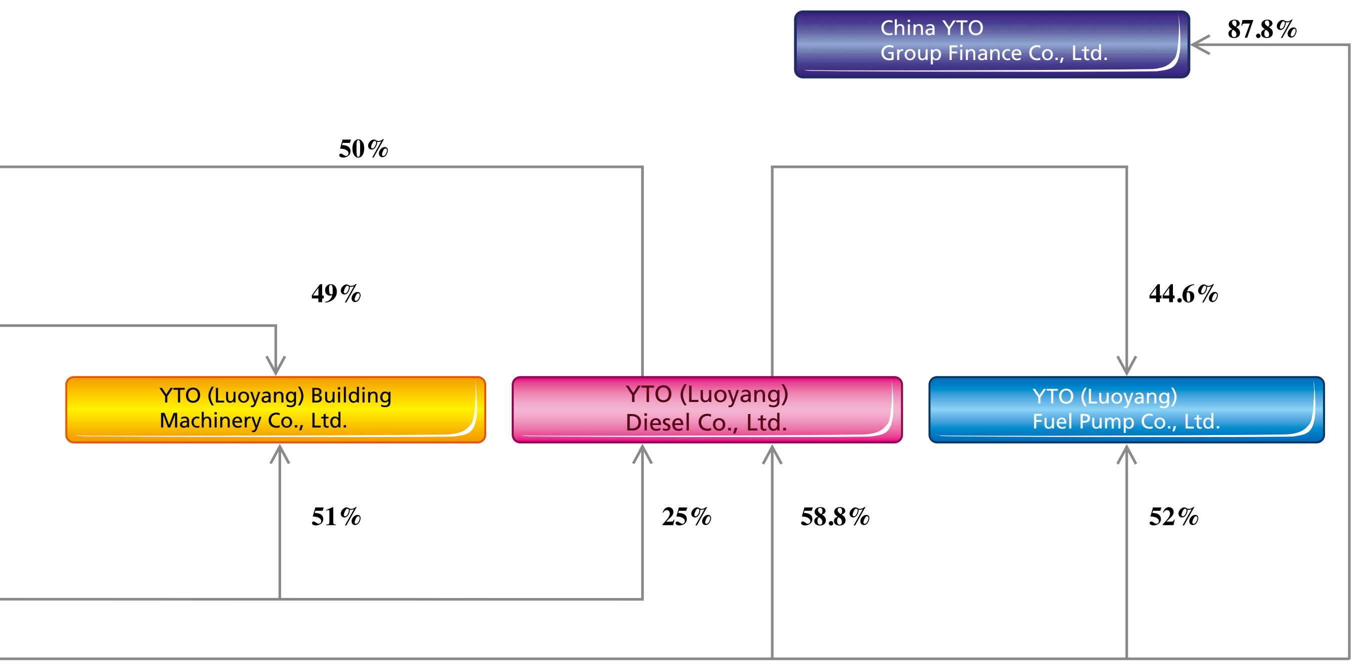
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
REVENUE	**8,971,261**	7,933,721
Finance costs	**(15,040)**	(37,643)
Share of losses of associates	**(7,222)**	(82)
Profit before income tax	**358,141**	90,407
Income tax expense	**(84,196)**	(9,528)
PROFIT FOR THE YEAR	**273,945**	80,879
Attributable to:		
Equity holders of the Company	**244,488**	68,505
Minority interests	**29,457**	12,374
	273,945	80,879
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY – Basic	**RMB28.90 cents**	RMB8.10 cents

CORPORATE STRUCTURE



CORPORATE STRUCTURE *(continued)*



CHAIRMAN'S STATEMENTS

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of First Tractor Company Limited (the "**Company**"), I am pleased to present to all shareholders the report of annual results ("**Annual Report**") of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2009 (the "**Reporting Period**") for your review.

Liu Dagong

Chairman

BUSINESS REVIEW

In 2009, the Group seized the opportunities arising from the economic stimulus package introduced by the State and continued to focus on the construction of its core capacity, pressed ahead with its structural adjustment, actively studied the possibility of enterprise transformation, and stepped up the efforts in innovative management, so as to effectively assuage the adverse effects brought by the international financial crisis. Against the backdrop of sluggish demand in the international market and the slump in export trades, the Group achieved a synchronized growth in corporate scale and efficiency and maintained steady development at a relatively quick pace.

During the Reporting Period, the Group recorded a revenue of RMB8,971,261,000, representing a year-on-year increase of 13.1%. Net profit attributable to equity holders of the parent amounted to RMB244,488,000, representing a year-on-year increase of 256.9%. Earnings per share was RMB0.289, up RMB0.208 over the same period last year.

The Board recommends the payment of a final dividend in the amount of RMB0.12 per share for the year 2009, which is subject to the consideration and approval of the shareholders at the Company's 2009 annual general meeting.

THE BOARD AND THE SUPERVISORY COMMITTEE

During the Reporting Period, the term of service of the Company's fourth Board and supervisory committee ("**Supervisory Committee**") expired. As such, members of the new session of the Board and the Supervisory Committee were appointed at the Company's 2008 annual general meeting held on 19 June 2009. Non-executive Directors accounted for a majority of the new session of the Board for a more rational composition of the Board. The new session of the Supervisory Committee included independent supervisors as its members to enhance supervision and strengthen check and balance, in turn further perfected the Company's corporate governance. The appointments of the new session of the Board created a new management team and a stable handover had been achieved.

Given the introduction of a new session of the Board and the Supervisory Committee as well as the regulatory requirements, Directors Liu Wenying, Li Tengjiao, Li Youji, Liu Shuangcheng, Zhao Fei, Lu Zhongmin, Chen Zhi and supervisors Kong Lingfu and Xu Weilin retired from office.

I would like to express my heartfelt gratitude for the contributions of the retired Directors and Supervisors to the Company during their term of office and wish them all the best. I am also grateful for the gracious support from all shareholders and the full cooperation and devoted efforts from all members of the Board, the Supervisory Committee and all the staff!

PROSPECTS

In 2010, it is expected that the world's economy will regain its growth momentum, the international financial market will gradually stabilize and China will further cement the foundation for full recovery of its economy. As the State's policies aiming to expand domestic consumption and improve people's livelihood continue to play their parts, the machinery industry will continuously witness a general better trend. Thanks to the positive impacts brought by the State's policies to further strengthen agriculture and benefit farmers, the agricultural machinery industry and its ancillary industry, the engine machinery industry, will continue to maintain their steady growth momentums. Driven by the significant increase in the investments made to the industrial projects, the continued investment in infrastructure construction and the gradual recovery of the export market, the construction machinery industry is likely to witness a moderate growth in the future.

The Group will keep focusing on the construction of its core capacity, sturdily press ahead with its structural adjustment on the back of advancement of its major products and technologies, continuously step up its enterprise transformation by means of optimizing and upgrading its value chain, continuously strengthen its strategic coordination by means of optimizing its resources allocation, and effectively enhance its management by focusing on risk prevention and management, so as to push a steady growth of the Group at a relatively quick pace.

As for the agricultural machinery business, taking the operation philosophy of boosting its product position as guidance, the Group will expedite the upgrades of its major products and technologies, establish an innovative system of core technologies, actively press ahead with key research and development projects as well as the technology renovation projects, strive for a leading position in terms of industry technology, and create long-term competitive edges for the Company. Besides, with the theme of increasing its market share, the Group will strengthen its marketing and sales strategies, magnify its project sales efforts, and strive to bolster its competitiveness in the regional market in order to cement the leading position of its major products in the domestic market.

As for the construction machinery business, the Group will actively integrate the technology resources and ancillary resources both within the territory and aboard, innovate its product development mode and effectively drive ahead the adjustment in its product mix. Meanwhile, the Group will actively push forward its asset restructuring, improve its asset structure and enhance its profitability in order to lay a firm foundation for sustainable development of the Group.

As for the engine machinery business, on the basis of identification of target market and product positioning, the Group will speed up its technology advancement, upgrade the quality of its products, and continuously expand the scope of ancillary markets. Meanwhile, with the focus being put on perfecting its business chain, the Group will integrate its external resources in a step-by-step approach as scheduled, and consolidate and create new competitive edges by means of capital utilization to further increase the positive impacts on the industry chain.

As for the international business, the Group will grasp firmly the opportunities brought by the recovery of the global economy. The Group will propel the structural adjustment in its international business by establishing supporting centres in overseas countries, implementing the SKD project, and bringing the cooperation platform with China-Africa Development Fund Company Limited ("**CADF**") into full play, continuously seek opportunities to expand its international business so as to enhance its competitiveness in the global market.

In 2010, the Group will stick to the principle of scientific development, weigh the market situation, stay cautious, adopt a prudent operation approach with a view to rewarding the shareholders with better performance whilst benefiting our staff and contributing to the society by providing the products and services of high quality to attract and retain customers.

Liu Dagong
Chairman

Luoyang, the PRC
9 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESS ANALYSIS

	Revenue			Segment results *(Note 1)*		
By segment	**2009** **RMB'000**	2008 RMB'000	% of change over last year	**2009** **RMB'000**	2008 RMB'000	% of change over last year
Agricultural machinery business	**6,811,536**	5,572,154	22.24	**196,507**	83,219	136.13
Construction machinery business	**922,508**	1,542,220	-40.18	**(68,170)**	(83,177)	18.04
Engine machinery business	**1,203,963**	777,209	54.91	**173,213**	91,854	88.57
Financial business	**33,254**	42,138	-21.08	**33,376**	40,133	-16.84
Unallocated and eliminations	**—**	—	—	**23,215**	(41,622)	—
Total	**8,971,261**	7,933,721	13.08	**358,141**	90,407	296.14

Note 1: Details of segment results are set out in Note 5 to the Consolidated Financial Statements in this Annual Report

Agricultural machinery business

In 2009, China's agricultural machinery industry witnessed a rapid growth with booming production and sales, as driven by various positive factors such as increased subsidies for agricultural machinery purchase by the State, lower raw material price, higher agricultural product price and increasing income of farmers. The comprehensive mechanization rate in cultivation, planting and harvesting has reached approximately 48.8%, which is approximately 3 percentage points higher than that in 2008. According to the statistics from China's tractor industry, during the Reporting Period, 287,594 units of large and medium tractors were sold in the country, representing a year-on-year increase of 32.3%, and 329,533 units of small tractors were sold, basically unchanged as compared with that in the same period last year. As inflicted by the global financial crisis, demand from the international market has shrunk, and the export of agricultural machinery, especially large and medium tractors, recorded a year-on-year plunge of approximately 54%.

Large wheeled tractors

During the Reporting Period, riding on the growth of domestic agricultural machinery industry and being demand-oriented, the Group focused on the development and promotion of large horsepower and high performance tractors, improved product spectrum and performance and speeded up product adaptation amelioration, thereby recording favourable results in the market. The Group took a step forward in the research and development of major products namely, wheeled tractors of 200 horsepower and above, passed the agricultural machinery evaluation test in respect of the promotion for the 280 horsepower wheeled tractor project and obtained permit for the promotion of agricultural machinery by the State. The fundamental construction of the technology renovation project, which is for the purpose of enhancing the manufacturing technology of and production capacity for heavy duty wheeled tractor products, has been completed. During the Reporting Period, the Group sold 60,947 units of large and medium tractors, representing a year-on-year increase of 31.6%, among which 36,637 units were large wheeled tractors, representing a year-on-year increase of 46.6%, maintaining its leadership in the industry. Sales of crawler tractors amounted to 2,445 units, representing a year-on-year increase of 23.9%; 21,865 units of medium wheeled tractors were sold, representing a year-on-year increase of 12.9%, with economy of scale emerging and on the track of sound progress; 49,090 units of small wheeled tractors were sold, representing a year-on-year decrease of 24.7%; 3,005 units of harvesters were sold, representing a year-on-year increase of 98.4%.

During the Reporting Period, operating revenue from the agricultural machinery business amounted to RMB6,811,536,000, representing a year-on-year increase of 22.2%, of which RMB246,754,000 was from export (equivalent to approximately USD36,181,000), decreased by 45.6% year-on-year. Export revenue accounted for 3.6% of the revenue of the agricultural machinery business. Operating results amounted to RMB196,507,000, representing a year-on-year increase of RMB113,288,000 or 136.1%. Consolidated gross profit of the agricultural machinery business amounted to RMB798,320,000, representing a year-on-year increase of RMB354,390,000 while the gross profit margin was 11%, representing a year-on-year increase of 3.8 percentage points, mainly due to the factors such as increase in sales volume of products, adjustment in product mix and lower price of raw materials.

Construction machinery business

During the Reporting Period, as impacted by the global financial crisis, economic recession spread around the world, market demand for construction machinery slid rapidly and export of the construction machinery industry plummeted substantially. As driven by the State's RMB4 trillion investment and other relevant policies, demand for construction machinery in the domestic market gradually recovered during the second quarter while the sub-industries presented different pictures. According to preliminary statistics from the industry, excavator and road roller industries grew by 23% and 48% respectively while bulldozer and forklift industries slid by 1% and 10.8% respectively.

Amid the complex market environment, the Group focused on industry features of over-diversification of products and loose array of resources in the construction machinery business, put great efforts in asset restructuring to concentrate on the development of core business. During the Reporting Period, the Group sold the equity interests in Zhenjiang Huachen Huatong Road Machinery Co., Ltd. ("**ZHHRM**"), Zhenjiang Huatong Aran Machinery Co., Ltd. ("**ZHAM**") and YTO (Luoyang) Lutong Construction Machinery Co., Ltd. ("**Lutong Company**"). Meanwhile, the Group cemented a solid foundation for its development by further propelling the adjustment in product mix, posting a limit on or suspending the production of loaders with relatively low profitability, expediting current product technology upgrades, continuously improving the profitabilities of road rollers and bulldozers, and stepping up the launches of hydraulic excavators and large horsepower bulldozers.

During the Reporting Period, the Group sold 1,773 units of road rollers, representing a year-on-year increase of 30% (excluding the impact of withdrawal of Lutong Company); sales of bulldozers and large excavators were 487 units and 75 units respectively, basically unchanged as compared with those in the same period last year; 2,400 units of small construction machineries (small excavators and small loaders) and 534 units of forklifts were sold, representing a year-on-year decrease of 33% and 21.5% respectively; and 305 units of loaders were sold, representing a year-on-year decrease of 69.5%.

During the Reporting Period, operating revenue from the construction machinery business was RMB922,508,000, representing a year-on-year decrease of 40.2%. Excluding the businesses of ZHHRM, ZHAM and Lutong Company (similarly hereinafter), operating revenue recorded a year-on-year decrease of 30.1%, of which RMB66,287,000 (equivalent to approximately USD9,720,000)was from export, representing a year-on-year decrease of 74.2%. Consolidated gross profit margin for construction machinery business was 5.2%, representing a year-on-year increase of 3 percentage points. Operating loss decreased by RMB15,007,000 as compared with that in the same period last year.

Tyre road roller

Engine machinery business

During the Reporting Period, as driven by the sales of agricultural machinery products, the Group saw a significant increase in the sales volume of engine machinery products and an enhanced competitiveness in the market. Meanwhile, the Group made positive progress in research and development in new products as well as production technology upgrades. The heavy power duty S series diesel engine project achieved mass production and sales while electronic control fuel injection system completed trial production in small quantity.

During the Reporting Period, the Group sold 132,050 units of diesel engines, representing a year-on-year increase of 44.7%, of which 82,552 units were sold by the Group to customers which are not members of the Group, representing a year-on-year increase of 38.9%. The revenue from selling diesel engines to customers which are not members of the Group was RMB1,203,963,000, representing a year on-year increase of 54.9%. Consolidated profit margin for engine machinery business was 20.2%, representing a year-on-year increase of 2.1 percentage points. Operating results recorded RMB173,213,000, representing a year-on-year increase of 88.6%.

Assembly line for diesel engines

Financial business

Financial business of the Group mainly involves the provisions of internal transfer and settlement, deposit, loan, bills discounting, finance lease, buyer credit for products and entrusted loan businesses by China YTO Group Finance Company Limited ("**YTO Finance**") to YTO Group Corporation Limited ("**YTO**") and its members (including the Group and its subsidiaries and non-wholly owned subsidiaries in which the Group holds 20% or more equity). YTO Finance is an important platform for the Group's concentrated internal capital management.

During the Reporting Period, the Group stepped up concentrated capital management to improve the efficiency of capital utilization. YTO Finance improved the efficiency of its financial services by improving the online banking settlement system. On the premise of all types of risks being under control, the Group expanded the scope of its financial services and made a quantum leap in the development of product finance lease and buyer credit services in 2009, providing support for the Group's sales of products.

During the Reporting Period, under the influences of 5 consecutive rates cuts by the People's Bank of China in 2008, low interest spread between loans and deposits and the smaller scales of loan and discount businesses to YTO and its subsidiaries, operating revenue from the financial business (after intra-group eliminations within the Group) was RMB33,254,000, representing a year on-year decrease of 21%; operating results was RMB33,376,000, representing a year on-year decrease of 16.8%. Adhering to the principle of risk, liquidity and profitability, the Group purchased financial products with low risk and high liquidity by using its spare capital and achieved an investment gain of RMB8,087,000, representing an increase of RMB7,132,000 as compared with that in the same period last year.

International business

During the Reporting Period, under the Group's relentless efforts in expanding its foothold in the international market, China-Africa Machinery Corporation ("**CAMACO**"), a joint venture jointly established by the Group and CADF has duly commenced operation, which further enhanced the Group's sales network in the global market. However, due to the sluggish demand in the international market under the influence of financial crisis, exports of the Group's products slumped. During the Reporting Period, export of the Group amounted to RMB328,260,000 (equivalent to approximately USD48,132,000), representing a year-on-year decrease of 54.6%.

ANALYSIS OF FINANCIAL RESULTS

Operating revenue

During the Reporting Period, the Group recorded operating revenue of RMB8,971,261,000, representing a year-on-year increase of 13.1%, mainly from the agricultural machinery business and the engine machinery business. Of the total operating revenue, agricultural machinery business accounted for 75.9%, representing a year-on-year increase of 5.7 percentage points; engine machinery business accounted for 13.4%, representing a year-on-year increase of 3.6 percentage points; construction machinery business accounted for 10.3%, representing a year-on-year decrease of 9.2 percentage points; whereas financial business accounted for 0.4%, representing a year-on-year decrease of 0.1 percentage point.

Gross profit and gross profit margin

During the Reporting Period, consolidated gross profit of the Group was RMB1,268,189,000, representing a year-on-year increase of 53.7%. Consolidated gross profit margin was 14.1%, increased by 3.7 percentage points as compared with that in the same period last year. The increase in consolidated gross profit margin was mainly attributable to the outcomes of the measures on adjustment in product mix, cost improvement, as well as the increase in the sales volume of products, and the reduction of raw material price from 2008.

Other income and gains

During the Reporting Period, the Group recorded other income and gains of RMB76,865,000, representing a year-on-year increase of RMB36,734,000, mainly attributable to the investment gains from the disposals of the equity interests in ZHHRM and ZHAM.

Period expenses

During the Reporting Period, period expenses of the Group amounted to RMB979,691,000, representing a year-on-year increase of 26.4%.

Expenses	**2009** ***RMB'000***	2008 *RMB'000*
Selling and distribution costs	**297,534**	272,187
Administrative expenses	**606,231**	402,624
Other operating expenses	**60,886**	62,317
Finance costs	**15,040**	37,643

Manufacturing factory for large wheeled tractors

(1) The selling and distribution costs amounted to RMB297,534,000, representing a year-on-year increase of RMB25,347,000 or 9.3%, which was mainly due to the increase in expense of three warranties (refund, replacement and repairs) and sales services as a result of sales growth of the Group and the change in accounting method on cost. Selling costs represented approximately 3.3% of the operating revenue, basically unchanged as compared with that in the same period last year.

(2) Administrative expenses amounted to RMB606,231,000, representing a year-on-year increase of RMB203,607,000 or 50.6% . Such a significant increase was mainly due to 1) more investments with greater intensity in R&D by the Group. R&D expenses increased by RMB128,695,000, as compared with that in the same period last year, representing an increase of 83%; and 2) the increase of RMB55,010,000 in the resignation and retirement benefits as a result of the adjustments in staff structure and the resignation and retirement benefits plan by the Group. Administrative expenses accounted for 6.8% of the operating revenue, representing a year-on-year increase of 1.7 percentage points.

(3) Other operating expenses amounted to RMB60,886,000, representing a year-on-year decrease of RMB1,431,000 or 2.3%, which was mainly due to the loss arising from changes in fair value of the held-for-trading financial assets of the Group in the same period of 2008.

(4) Finance costs amounted to RMB15,040,000, representing a year-on-year decrease of RMB22,603,000 or 60%, which was mainly attributable to 1) lower loan interests; and 2) the decrease in the average loan amount as a result of the utilization of financial tools including finance lease and buyer credit by the Group during the Reporting Period.

Income tax

During the Reporting Period, the Group's expense of income tax increased from RMB9,528,000 for the same period in 2008 to RMB84,196,000, representing a year-on-year increase of RMB74,668,000, mainly due to the increase in profit.

ASSETS AND LIABILITIES

Analysis on assets

As at 31 December 2009, the Group's total assets amounted to RMB5,843,209,000 (31 December 2008: RMB5,535,377,000), including current assets of RMB4,162,432,000. The major items of current assets are as follows:

	31 December 2009	31 December 2008	Difference
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	**915,181**	758,535	156,646
Pledged deposits	**294,197**	366,357	(72,160)
Trade and bills receivables	**878,320**	813,872	64,448
Inventories	**1,018,867**	842,003	176,864

Cash and cash equivalents

As at 31 December 2009, the Group's current cash and cash equivalents amounted to RMB915,181,000, increased by RMB156,646,000 as compared with that in the same period last year, of which the Company owned as to RMB267,107,000 and the remaining was owned by the subsidiaries of the Company.

Pledged deposits

As at 31 December 2009, the Group's pledged deposits amounted to RMB294,197,000, representing a year-on-year decrease of RMB72,160,000, which mainly arose from the guarantee deposit paid to the bank for the purpose of acquiring bank acceptance bills.

Trade and bills receivables

As at 31 December 2009, the Group's trade and bills receivables amounted to RMB878,320,000, representing a year-on-year increase of RMB64,448,000, of which trade receivable decreased by RMB1,229,000 and bills receivable increased by RMB65,677,000 as compared with those in the same period last year. The increase in bills receivable was mainly due to more use of settlement by bills for better cost control and lowering the finance costs. All the bills receivable held by the Group were bank acceptance bills.

During the Reporting Period, turnover days of trade receivable held by the Group were 29 days, which was 6 days earlier than the same period last year.

Inventories

As at 31 December 2009, the Group's inventories amounted to RMB1,018,867,000, representing a year-on-year increase of RMB176,864,000, which was mainly due to the increased reserve of work-in-process and finished products so as to meet the burst of market demand in peak season in early 2010.

During the Reporting Period, the Group's inventory turnover days were 49 days, which was 5 days earlier than the same period last year.

Analysis on liabilities

As at 31 December 2009, the Group's total liabilities amounted to RMB2,837,615,000 (31 December 2008: RMB2,792,940,000), including current liabilities of RMB2,632,606,000. The liabilities mainly include:

	31 December 2009 *RMB'000*	31 December 2008 *RMB'000*	Difference *RMB'000*
Short-term borrowings	**143,000**	167,000	(24,000)
Trade and bills payables	**1,670,441**	1,448,998	221,443
Long-term borrowings	**—**	144,000	(144,000)

Short-term loans and long-term loans

As at 31 December 2009, the Group's short-term loans amounted to RMB143,000,000, representing a year-on-year decrease of RMB24,000,000.

During the Reporting Period, to lower the finance costs, the Group adjusted its loan structure and repaid all long-term loans of RMB144,000,000. As at 31 December 2009, the Group had no long-term loans.

Details of effective interest rates and terms of repayment of the short-term loans and long-term loans are set out in Note 34 to the Consolidated Financial Statements in this Annual Report.

The Group currently does not rely heavily on borrowings. As a financial policy, the Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through optimization of the debt and equity ratio.

Trade and bills payables

As at 31 December 2009, the Group's trade and bills payables amounted to RMB1,670,441,000, representing a year-on-year increase of RMB221,443,000, of which bills payables increased by RMB80,472,000 as compared with that in the same period last year, mainly attributable to the increase in the financing amount of bills with a view to easing the capital pressure at bank and on hand; trade payable increased by RMB140,971,000 as compared with that in the same period last year.

Details of trade and bills payables are set out in Note 30 to the Consolidated Financial Statements in this Annual Report.

Indicators of financial ratio

Items	Basis of calculation	**31 December 2009**	31 December 2008
Gearing ratio	Total liabilities/total assets x 100%	**48.56%**	50.46%
Current ratio	Current assets/current liabilities	**1.58**	1.54
Quick ratio	(Current assets - inventories)/current liabilities	**1.19**	1.20
Debt equity ratio	Total liabilities/shareholders' equity* x 100%	**100.80%**	108.89%

* *Note:* Shareholders' equity (excluding minority interest)

As at 31 December 2009, the gearing ratio of the Group was 48.56%, representing a year-on-year decrease of 1.9 percentage points.

Capital structure

As at 31 December 2009, the total equity of the Group amounted to approximately RMB3,005,594,000, of which equity attributable to equity holders of the Company was approximately RMB2,815,226,000, and the remaining was minority interests.

Analysis of equity and reserves

Items	**31 December 2009** *RMB'000*	31 December 2008 *RMB'000*	Change in amount Increase/(decrease) *RMB'000*
Share capital	**845,900**	845,900	—
Capital surplus (Share premium)	**1,539,938**	1,539,938	—
Capital surplus	**(130)**	—	(130)
Statutory surplus reserve	**137,539**	113,519	24,020
Reserve fund	**—**	3,590	(3,590)
Enterprise expansion fund	**—**	2,573	(2,573)
General and statutory reserve	**5,464**	5,145	319
General surplus reserve	**64,744**	64,744	—
Available-for-sale investment revaluation reserve	**70,758**	24,546	46,212
Exchange fluctuation reserve	**(9,174)**	(11,673)	2,499
Unallocated profit/(accumulated losses)	**58,679**	(65,691)	124,370
Proposed final dividend	**101,508**	42,295	59,213

Available-for-sale investment revaluation reserve increased by RMB46,212,000 as compared with that in the same period last year, which was mainly attributable to the surge in stock prices of Bank of Communications and Daye Special Steel held by the Group.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

1. In order to exploit the agricultural machinery market in Northeast China, the Company entered into a joint venture agreement with Heilongjiang Agricultural Machinery Company Limited ("**Heilongjiang Agricultural Machinery Company**") on 2 April 2009 to jointly establish YTO Heilongjiang Modern Agricultural Machinery Company Limited ("**YTO Heilongjiang**") in Harbin City of Heilongjiang Province. The registered capital of YTO Heilongjiang is RMB100,000,000. The Company and Heilongjiang Agricultural Machinery Company would contribute RMB51,000,000 and RMB49,000,000 to YTO Heilongjiang respectively for 51% and 49% equity interests. The first installment of the capital contribution was RMB20,000,000, of which the Company contributed RMB10,200,000. YTO Heilongjiang is mainly engaged in the development, manufacture and sales of agricultural equipment such as large horsepower tractors, large compound agricultural machinery tools and agricultural construction machineries. The first installment of the capital contribution had been made. YTO Heilongjiang was incorporated on 20 August 2009.

2. On 15 April 2009, the Company and CADF entered into the investment agreement ("**Investment Agreement**") relating to the establishment of CAMACO in China. Pursuant to the Investment Agreement, the Company and CADF will contribute RMB137,500,000 and RMB112,500,000 to CAMACO, representing 55% and 45% of the equity of CAMACO respectively, within 5 years from the effective date of the Investment Agreement. CAMACO was incorporated in Beijing on 27 May 2009. As at 31 December 2009, the Company and CADF contributed RMB55,022,000 and RMB45,018,000 respectively, totalling RMB100,040,000. CAMACO is mainly engaged in export of products including agricultural machineries and construction machineries to Africa, as well as investment and construction of assembly factories and marketing centres in Africa.

3. On 26 March 2009, Brilliance China Machinery Holdings Limited ("**BCM**"), a subsidiary of the Company, entered into the Agreement on Equity Transfer of Zhenjiang Huachen Huatong Road Machinery Co., Ltd. and the Agreement on Equity Transfer of Zhenjiang Huatong Aran Machinery Co., Ltd. with Singapore Commuter Private Limited ("**Singapore Commuter**"), an independent third party, pursuant to which BCM sold 59% of the equity interests in each of ZHHRM and ZHAM to Singapore Commuter at a consideration of RMB85,140,000. The consideration of the disposals was determined according to the appraised value of net assets of the said two companies. Upon completion of the disposals, BCM ceased to hold any equity interests in the said two companies. ZHHRM and ZHAM are principally engaged in manufacture and sales of road paving machineries, maintenance machineries and blending machineries.

4. In July 2009, YTO (Luoyang) Building Machinery Co., Ltd, a subsidiary of the Company, withdrew from all its 51.11% equity interests in its subsidiary, Lutong Company, by way of capital reduction and recovered investment capital of RMB26,680,000. Upon the withdrawal, the Group ceased to hold any equity interests in Lutong Company. Lutong Company is a company incorporated in the PRC with limited liability and principally engaged in manufacture and sales of construction machineries such as road rollers and accessories.

Interests in Associates

During the Reporting Period, the Group shared a loss of RMB7,222,000 in operating losses of Luoyang First Motors Company Limited and YTO Shunxing (Luoyang) Spare Parts Co., Ltd, both being associates of the Group.

Capital Commitments

During the Reporting Period, for the purposes of purchasing machineries and equipment as well as construction of technology renovation projects, the capital commitments of the Group amounted to RMB289,320,000, of which construction project on heavy power duty diesel engines amounted to RMB90,650,000, technology renovation project on heavy power duty wheeled tractors amounted to RMB129,400,000, building of construction infrastructure of Yituo Industrial Park (large wheeled tractors, heavy diesel engines) amounted to RMB3,470,000, redevelopment of stem hammers amounted to RMB23,430,000, upgrade of communications amounted to RMB3,940,000 whereas other technology renovation strategies amounted to RMB38,430,000.

Significant Investment or Acquisition of Capital Assets of the Group in the Future

In 2010, the Group intends to invest RMB790,370,000, which will be mainly used for project constructions of heavy power duty diesel engines and large wheeled tractors, as well as technology renovation projects of large/medium wheeled tractors, crawler tractors, bulldozers, and construction of parts and accessories centre. The said investments will be mainly financed by bank loans and the existing capital of the Group.

Exchange Rate Risk

During the Reporting Period, the Group carried out its business activities mainly in the PRC, and its income and expenditure from international businesses were principally denominated in Renminbi. Accordingly, changes in exchange rates of currencies have not materially impacted the production and operation. The Group's foreign exchange debt was mainly applied to the payment of commissions outside the PRC and dividends to holders of H Shares. The Group's cash balances were usually deposited with financial institutions in the form of short term deposits. Bank loans were borrowed in Renminbi and such loans were repaid out of the revenue received in Renminbi.

As at 31 December 2009, there was no pledge of any deposit of foreign currency of the Group.

Pledge of Assets

As at 31 December 2009, certain of the Group's building machineries and equipment with an aggregate net carrying value of approximately RMB41,799,000 (2008: RMB62,308,000) were pledged to secure certain bank loans granted to the Group.

As at 31 December 2009, certain of the Group's prepaid operating leases with an aggregate net carrying value of approximately RMB6,436,000 (2008: RMB8,404,000) were pledged to secure bank loans granted to the Group.

As at 31 December 2009, the Group's deposits of approximately RMB294,197,000 (2008: RMB366,357,000) were pledged to secure the Group's bills payable of approximately RMB330,103,000 (2008: RMB411,070,000).

Contingent Liabilities

As at 31 December 2009, the Group had no significant contingent liabilities.

NUMBER OF STAFF, REMUNERATION POLICY AND TRAINING FOR STAFF

As at 31 December 2009, the Group had a total of 14,330 staff members, of whom 7,878 were production staff, 924 were engineering technicians, 242 were financial staff, 1,215 were management staff, 1,261 were sales staff, 174 were service staff and 2,636 were other staff.

During the Reporting Period, the Group continued to implement a basic salary system based on "the remuneration in accordance with position". 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 and employee benefits. The Company established different levels of professional and technical positions such as chief technician, chief engineer (economist) and executive to set up a multi-channel incentive system for the promotion of administrative staff and professional staff, thus fully mobilized the enthusiasm of the staff in studying and improving professional skills and provided strong support for the Company's development in terms of talents team.

The Group provided multi-tier training in a planned and systematic way, which enabled calibre of staff at various levels and functions to match the posts' requirements in line with the Company's growth. During the Reporting Period, the Group provided altogether 18,060 individual training to staff members through a total of 727 various training courses.

PROFILES OF DIRECTORS, SUPERVISORS, JOINT COMPANY SECRETARIES, AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Dagong, aged 55, joined China First Tractor Group (Note: YTO (formerly known as YTO Construction Machinery Company) and its subsidiaries) in 1975 where he served as a researcher, supervisor and deputy general manager and general manager. He is currently the deputy general manager of China National Machinery Industry Corporation (中國機械工業集團有限公司) ("**SINOMACH**"), chairman of YTO, chairman of the Company and the deputy governor of China Machinery Enterprise Management Association. Mr. Liu has substantial experience in corporate management, strategic planning, production and operation. He graduated from Zheng Zhou University in 1985 and then graduated from the postgraduate course on economic management in Henan Province Party College.

Ms. Dong Jianhong, aged 43, joined China First Tractor Group in 1989 and was the deputy section chief, section chief as well as the deputy department head, the head of the financial department and the chief accountant of the Company. She is currently an executive Director and the chief financial officer of the Company. Ms. Dong is familiar with financial management of mega enterprises and is well experienced in accounting, financial management and capital operation. Ms. Dong obtained a bachelor degree of science from Zhengzhou University and a master degree of engineering from Xi'an University of Technology. She holds the title of senior economist.

Mr. Qu Dawei, aged 43, joined China First Tractor Group in 1988. He was the head of Technological Equipment Research Institute, general manager of equipment and technology branch and deputy general manager, general manager of Spares Division of China First Tractor Group and executive deputy general manager of the Company. He is currently the general manager and executive Director of the Company. Mr. Qu is familiar with the research and development of technological equipment, and has extensive experience in the field of business management. Mr. Qu graduated from Huazhong University of Science and Technology with a master's degree. He holds the title of senior engineer.

Mr. Li Xibin, aged 52, had worked in the Luoyang Tractor Research Institute under the Ministry of Machinery Industry of China. He joined China First Tractor Group in 1995 and was the head assistant and deputy head of China First Tractor Group's technology center, factory manager of No. 2 Iron Foundry, general manager of YTO (Luoyang) Diesel Engine Company Limited and general manager of YTO (Luoyang) Engine Machinery Company Limited. He is currently the executive Director and deputy general manager of the Company. Mr. Li is familiar with the internal combustion engine industry, and has extensive experience in corporate operation and management. Mr. Li graduated from Jiangsu Polytechnic University and Wuhan University of Technology with a bachelor's degree and a master's degree in engineering respectively. He holds the title of senior engineer with professorship.

NON-EXECUTIVE DIRECTORS

Mr. Zhao Yanshui, aged 46, joined China First Tractor Group in 1983. Mr. Zhao was previously the section head, deputy factory manager, deputy chief engineer, deputy general manager of China First Tractor Group and executive deputy general manager of the Company. He is currently the general manager of YTO, non-executive Director of the Company, deputy governor of Association of Construction Engineering Industry of China and deputy governor of Association of Agricultural Machinery. Mr. Zhao has extensive experience in product development, product design and technical management. He studied at the Agricultural Machinery Department of Technical Institute of Jiangsu and was a postgraduate of the Technical Institute of Jiangsu and Jiangsu University. He was awarded a bachelor's degree, a master's degree and a doctorate degree in engineering. He holds the title of senior engineer with professorship.

Mr. Yan Linjiao, aged 54, joined China First Tractor Group in 1982. He was the deputy workshop director, technical section chief, assistant chief engineer and deputy general manger of YTO (Luoyang) Diesel Engine Company Limited, assistant chief engineer and deputy general manager of China First Tractor Group as well as an executive Director and the general manager of the Company. Mr. Yan is currently a non-executive Director of the Company. Mr. Yan is familiar with design and manufacture of machinery with substantial experience in corporate management, production and operation. He studied at Luoyang Industry College and Xi'an Jiaotong University where he was awarded a bachelor's degree and a master's degree in engineering respectively. He holds the title of senior engineer.

Mr. Shao Haichen, aged 54, joined China First Tractor Group in 1977. He was the section chief, deputy factory manager, factory manager and deputy general manager of China First Tractor Group as well as assistant to general manager, deputy general manger and general manager of the Company. He joined the Company in 1998 and is currently a non-executive Director of the Company. Mr. Shao is extensively experienced in preparation of productive technology as well as corporate operation and management. Mr. Shao graduated form Luoyang Institute of Technology & Science in 1982 with a bachelor's degree and later was awarded a master's degree from Jiangsu University in 2003. He holds the title of senior engineer.

Mr. Liu Yongle, aged 53, joined China First Tractor Group in 1979 where he served as the deputy director of the Labour and Salary Division, manager of personnel department, manager of human resources department, assistant to general manager, deputy general manager, chairman of Labour Union and deputy party secretary of China First Tractor Group. He is currently the deputy party secretary of YTO and a non-executive Director of the Company. Mr. Liu is familiar with affairs related to personnel, labour and salary, and has extensive experience in corporate management and personnel system reform. Mr. Liu studied in Party School of the Central Committee of the Communist Party of China majoring in economic management. He holds the title of economist.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Sau Shan, Gary, aged 56, joined the Company in 1997 as an independent non-executive Director and is currently an independent non-executive Director and a member of the remuneration committee and the audit committee of the Company. Mr. Chan joined China Development Finance Company (Hong Kong) Limited in 1992, a wholly-owned subsidiary of Bank of China and acted as the Head of Investment Banking Department and the managing director of BOCI Asia Ltd. In 2003, Mr. Chan joined Construction Bank of China and served as a director of CCB International Holdings Ltd.. He also served as the managing director of CCB International Capital Limited and CCB International Securities Ltd.. Mr. Chan joined ICEA Financial Holdings Limited, a subsidiary of Industrial and Commercial Bank of China, in 2006 and served as deputy chief executive officer, in charge of listing, acquisition and merger. Mr. Chan is currently the chief executive officer of ICEA Securities Limited, a wholly-owned subsidiary of the Bank of East Asia. Mr. Chan has 30 years of working experience in investment banking. Mr. Chan was a member of the Listing Committee for the GEM Board of the Stock Exchange of Hong Kong Limited from 1999 to 2003. Mr. Chan graduated from the University of Windsor, Canada with a master degree in Business Administration and from the University of Western Ontario with a bachelor degree in Arts and attended the Financial Management Program of Stanford University, USA.

Mr. Luo Xiwen, aged 65, has been serving as an independent non-executive Director of the Company since 2006 and is currently an independent non-executive Director and a member of the remuneration committee and the audit committee of the Company. He joined South China Agricultural University in 1982 where he served the positions of associate professor, professor and the head of Faculty of Agricultural Engineering, the head and mentor of doctorate students of Faculty of Engineering Technique, the vice president of South China Agricultural University. Currently Mr. Luo is a professor with South China Agricultural College and is the convener of Agricultural Engineering Division of Bachelor Committee under the State Council, deputy governor of Chinese Society of Agricultural Engineers, deputy governor of Chinese Society for Agricultural Machinery, deputy governor of the National Advanced Agricultural Education Research Institute, deputy governor of Guangdong Society for Agricultural Machinery, deputy editor-in-chief of Transactions of the Chinese Society of Agricultural Engineering, editor of Transactions of the Chinese Society for Agricultural Machinery, member of International Society for Terrain-Vehicle System (ISTVS), member of International Soil Tillage Research Organization (ISTRO), member of Asian Association for Agricultural Engineering (AAAE), member of American Society of Agricultural Engineers (ASAE). Mr. Luo graduated from South China Agricultural University in 1982 with a master's degree and holds the title of professor.

PROFILES OF DIRECTORS, SUPERVISORS, JOINT COMPANY SECRETARIES, AND SENIOR MANAGEMENT *(continued)*

Mr. Hong Xianguo, aged 46, has been serving as an independent non-executive Director of the Company since 2009 and is currently an independent non-executive Director and a member of the remuneration committee of the Company. Mr. Hong had served as the party secretary, assistant to department manager and deputy manager of China Agriculture and Farming Machinery Corporation (中國農牧業機械總公司). Since 1998, he had served as the secretary-general of Agricultural and Sideline Products Processing Machinery Branch, Harvesting and Field Operation Machinery Branch and Animal Husbandry and Feed Processing Machinery Branch of China Association of Agricultural Machinery Manufacturers. From November 2001 to May 2006, he acted as deputy secretary-general of China Association of Agricultural Machinery Manufacturers. Since November 2005, he has been a council member of the China - ASEAN Business Council. Since May 2006, he has been the 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. He had participated in numerous international exchanges of the agricultural machinery industry and had chaired or participated in a number of research projects and reports on China's agricultural machinery industry policies. Mr. Hong graduated from Luoyang Polytechnic Institute and was awarded a bachelor's degree in design and manufacture of agricultural machinery. He holds the title of senior engineer.

SUPERVISORS

Mr. Zheng Luyu, aged 56, joined China First Tractor Group in October 1989 where he held the posts of officer, assistant to head and deputy head of Department of Public Security, head of Armed Equipment Division, officer to the Party Committee Office, officer to the General Office and assistant to general manager of China First Tractor Group. Mr. Zheng is currently the deputy secretary to the Party Committee and secretary to the Disciplinary Committee of YTO and chairman of the Supervisory Committee of the Company. Mr. Zheng has extensive experience in administration and supervision, legal matters and internal audit. He holds a title of senior political engineer with professorship.

Ms. Yi Liwen, aged 47, joined China First Tractor Group in 1986 where she served positions such as deputy section head, section head and office head of the Audit Department of China First Tractor Group. She is currently the deputy head of the Audit Supervision Committee of YTO and a supervisor of the Company. Ms. Yi has extensive experience in the fields of enterprise accounting, financial management and enterprise internal audit. Ms. Yi graduated from Henan Radio & Television University in 1986, and Party School of the Central Committee of the Communist Party of China majoring in economic management. She holds the titles of accountant and certified senior consultant.

Mr. Zhao Shengyao, aged 55, joined China First Tractor Group in 1975. He was the deputy general manager of YTO (Luoyang) Construction Machinery Company Limited, secretary to the Party Committee and deputy general manager of YTO (Luoyang) Fuel Pump Company Limited. He is currently the deputy secretary to the Disciplinary Committee and head of the Audit Supervision Committee of YTO as well as a supervisor of the Company. Mr. Zhao has extensive experience in production and operation management, as well as administration and supervision.

Mr. Shao Jianxin, aged 56, joined China First Tractor Group in 1973. He was the deputy workshop supervisor, supervisor, assistant to factory manager, deputy factory manager and factory manager of No.2 Fabricating Factory of the Company. He is currently a supervisor and director of the production and operation department of the Company. Mr. Shao graduated from the postgraduate course of Henan Institute of Administration majoring in economics management. He holds the title of engineer.

Mr. Wang Yong, aged 41, joined the Company in 2009. Mr. Wang graduated from China Youth University for Political Sciences in 1990 and obtained a bachelor's degree. He worked for the People's Government of Yancheng city from 1990 to 1993. He studied at the Law School of Nanjing University from 1993 to 1996 and was awarded a master degree in economic law. From 1996 to 1999, he studied at China University of Political Science and Law and was awarded a doctorate degree in civil and commercial law. Mr. Wang has been teaching at China University of Political Science and Law after graduation in 1999. From 2003 to 2005, he served as a visiting scholar at Law Center of Georgetown University, School of Law of Columbia University, and University of Oxford. He is currently 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 council member of China Commercial Law Institute and China Securities Law Institute, and a part-time lawyer of Beijing Long An Law Firm. Mr. Wang has long been engaged 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.

Mr. Huang Ping, aged 41, joined the Company in 2009. Mr. Huang served as head of Finance Department of Luoyang Yutong Automobile Co., Ltd.. He has been working in the Luoyang Zhonghua Certified Public Accountants Co., Ltd. since 1997, and is currently the deputy director of Luoyang Zhonghua Certified Public Accountants Co., Ltd.. He is a security specialized accountant 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, vice president of Luoyang Judicial Authentication Association and the standing council member of Luoyang Entrepreneurs Association. Mr. Huang possesses 12 years of experience in auditing as a certified accountant and has extensive experience in financial audit, corporate reform, debt-to-equity swap, investment and financing, merger and acquisition as well as bankruptcy and liquidation. Mr. Huang graduated from Luoyang Institute of Science and Technology in 1989, majoring in financial accounting.

JOINT COMPANY SECRETARIES

Ms. Yu Lina, aged 39, joined China First Tractor Group in 1992. She was the legal adviser and head of the secretary to the Board and the assistant to company secretary. She is currently the secretary to the Board. Ms. Yu is experienced in corporate management and capital operation. She studied at Law Department of Zhongnan College of Politics and Law and majored in law at China University of Political Science and Law, and was awarded a bachelor's degree and a master's degree. Ms. Yu holds the qualification of lawyer in the PRC and corporate legal adviser and a title of economist.

Ms. Liu Pui Yee, aged 32, joined the Company in October 2008 as joint company secretary. Ms. Liu is a Hong Kong qualified solicitor. She obtained a bachelor degree in laws and Postgraduate Certificates in Laws from University of Hong Kong. Ms. Liu also obtained a second degree in Chinese laws from Tsinghua University. Ms. Liu has accumulated extensive experiences in handling compliance issues of listed companies and corporate merger and acquisition transactions.

GENERAL MANAGER

Mr. Qu Dawei is the general manager of the Company. For his details, please refer to page 22 of this Annual Report.

DEPUTY GENERAL MANAGERS

Ms. Ren Huijuan, aged 51, joined China First Tractor Group in 1982, where she was the committee member, section chief, deputy division head and division head of the organization office of Committee of the Communist Part of China (黨委組織部幹事), head of External Affairs Department (涉外事務處處長), head of the Human Resources Division (人力資源部部長), vice chairman of Labour Union and vice secretary and vice head of the Technology and Material Research Institute. She is currently the chairman of Labour Union of YTO, secretary to Party Committee and the deputy general manager of the Company. Ms. Ren has long engaged in corporate organization and personnel affairs and has accumulated extensive experience in these areas. Ms. Ren graduated from Luoyang Industry College and Jiangsu Polytechnic University with a bachelor's degree and a master's degree in engineering respectively. She holds the title of senior political engineer.

Mr. Liu Jiguo, aged 45, joined China First Tractor Group in 1987, where he was the section head, deputy factory manager and factory manager. He had also served as executive deputy general manager and general manager of Agriculture Equipment Division. He is currently the deputy general manager of the Company. Mr. Liu is familiar with the machinery manufacturing technics and equipment, marketing, and has extensive experience in production and operation, cost management and financial operations. Mr. Liu graduated from Northeast Heavy Machinery Institute and Jiangsu Polytechnic University with a bachelor's degree and a master's degree in engineering respectively. He holds the title of senior engineer.

Mr. Li Xibin is the deputy general manager of the Company. For his details, please refer to page 22 of this Annual Report.

Mr. Jin Yang, aged 50, joined China First Tractor Group in 1993, where he was the workshop director, assistant to factory manager and factor manager, and was the deputy general manager of Construction Machinery Division. He is currently the deputy general manager of the Company and the general manager of Construction Machinery Division. Mr. Jin is familiar with the machinery manufacturing technologies and equipment, and has extensive experience in the fields of corporate management, technics materials, production and operation. Mr. Jin graduated from Changchun Institute of Optics and Fine Mechanics with a bachelor's degree in engineering. He holds the title of senior engineer.

Mr. Lian Guoqing, aged 53, joined China First Tractor Group in 1982. He was the technical section head and deputy chief engineer of No. 2 Fabricating Factory, deputy chief engineer, chief engineer, executive deputy factory manager and factory manager of No. 3 Fabricating Factory, deputy general manager and general manager of Agriculture Equipment Division. He is currently the deputy general manager of the Company. Mr. Lian is familiar with the mechanic design and manufacture, and has extensive experience in production and operation as well as corporate management. Mr. Lian graduated from Luoyang Industry College and its postgraduate course of management science and engineering, with a bachelor's degree in engineering. He holds the title of senior engineer.

Mr. Jiao Tianmin, aged 51, joined China First Tractor Group in 1982. He was the vice director of Tractor and Automobile Research Institute, assistant to director and executive vice director of the Technical Center of China First Tractor Group, and general manager of Luoyang Tractor Research Institute Company Limited. He is currently the deputy general manager of the Company. Mr. Jiao has extensive experience in areas of machinery manufacture and corporate management. Mr. Jiao graduated from Jilin University of Technology, Huazhong University of Science and Technology and Xi'an Jiaotong University, and was awarded a bachelor's degree, a master's degree and a doctorate degree in engineering respectively. He holds the title of senior engineer with professorship.

CHIEF FINANCIAL OFFICER

Ms. Dong Jianhong is the chief financial officer of the Company. For her details, please refer to page 22 of this Annual Report.

REPORT OF THE DIRECTORS

The Board herein presents the report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2009.

1. PRINCIPAL BUSINESS

The Company is principally engaged in production and sale of agricultural tractors. Details of the principal activities of the subsidiaries of the Company are set out in Note 18 to the Consolidated Financial Statements in this Annual Report. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the financial status of the Company and the Group as at 31 December 2009 are set out in the Consolidated Financial Statements in page 65 to page 200 of this Annual Report.

The Board recommends the payment of a final dividend in the amount of RMB0.12 per share for the year 2009. The dividends for H share ("**H Shares**") shareholders of the Company will be paid in Hong Kong dollars. The exchange rate is determined by the average exchange rate announced by the People's Bank of China of the five working days before the declaration of dividends, representing a dividend of HK$0.1365 per H Share. The said dividend will be distributed on or before 11 August 2010 to shareholders whose names appear on the register of members as at 12 May 2010. Payment of the dividend is subject to the approval by shareholders of the Company at the annual general meeting to be held on Friday, 11 June 2010. In order to determine the holders of H Shares who are entitled to receive 2009 final cash dividends, the Company's register of members will be closed from 12 May 2010 to 10 June 2010 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares who wish to receive 2009 final cash dividends must deposit the transfer documents together with the relevant share certificates at the H Shares registrar of the Company, Hong Kong Registrars Limited, at or before 4:30 p.m. on 11 May 2010 at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

According to the Enterprise Income Tax Law of the People's Republic of China and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China (collectively, the "**Tax Law**") which came into effect in 2008, as from 1 January 2008, any Chinese domestic enterprise which pays dividend to a non-resident enterprise shareholder in respect of accounting period beginning from 1 January 2008 shall withhold and pay enterprise income tax. As such, the Company as a Chinese domestic enterprise is required to withhold for payment of the 10% enterprise income tax from the payment of the 2009 final dividend to holders of H Shares who are non-resident enterprises (including but not limited to HKSCC Nominees Limited) and whose names are registered on the H Shares register of members of the Company (the "**H Shares Register**") on 12 May 2010, and the Company will distribute the final dividend to the non-resident enterprises after deducting such tax.

The term "non-resident enterprise(s)" shall have the same meaning as defined under the Tax Law and its relevant rules and regulations when used in this Annual Report.

No withholding or payment of enterprise income tax will be made in respect of the 2009 final dividend payable to any natural person shareholder listed on the H Shares Register on 12 May 2010. Any natural person investor whose H Shares are registered under the name of any non-resident enterprise and who does not wish to have the enterprise income tax to be withheld and paid by the Company, may consider transferring the legal title of the relevant H Shares into his or her name and duly lodge all transfer documents together with the relevant H Share certificates with the H Share registrar of the Company for registration, at or before 4:30 p.m. on 11 May 2010.

All shareholders and investors should read this paragraph carefully. The Company has no obligation and will not be responsible for confirming the identities of any shareholders and the Company will withhold for payment of the enterprise income tax according to the Tax Law and its relevant rules and regulations.

The Company assumes no liability in respect of and will not deal with any claim arising from any inaccurate determination of the status of shareholders or any dispute over the mechanism of enterprise income tax withholding.

3. FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements. The financial summary has been prepared in accordance with Hong Kong accounting standards:

Consolidated results

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**8,971,261**	7,933,721	7,102,150	6,101,451	4,765,828
Profit/(loss) before tax	**358,141**	90,407	237,804	87,467	(77,482)
Tax	**(84,196)**	(9,528)	(40,024)	(15,251)	17,183
Current Profit /(loss)	**273,945**	80,879	197,780	72,216	(60,299)
Minority interests	**(29,457)**	(12,374)	(16,018)	633	9,863
Net profit/(loss) attributable to equity holders of the parent	**244,488**	68,505	181,762	72,849	(50,436)

Consolidated assets, liabilities and minority interests

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**5,843,209**	5,535,377	5,488,083	4,991,222	3,821,630
Total liabilities	**(2,837,615)**	(2,792,940)	(2,735,190)	(2,623,173)	(1,644,175)
Minority interests	**(190,368)**	(177,551)	(177,848)	(170,018)	(146,536)
Total equity attributable to equity holders of the parent	**2,815,226**	2,564,886	2,575,045	2,198,031	2,030,919

4. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 15 to the Consolidated Financial Statements in this Annual Report.

5. SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the Reporting Period, there were no changes in the registered capital or share capital in issue of the Company. It did not issue any convertible securities, options, warrants or similar rights.

6. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company ("**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.

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

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

On 19 June 2009, the "Proposal for Authorizing the Board to Exercise the General Mandate to Repurchase H Shares of the Company" ("**Proposed Mandate**") was considered and approved at the 2008 annual general meeting and class meetings of the Company, pursuant to which the Board was authorized to repurchase up to a maximum of 10% of the number of H Shares in issue of the Company. Upon approval by the relevant authorities of the PRC, the Board can exercise the mandate for a term effective from 19 June 2009 until whichever is the earlier of:

1) the conclusion of the forthcoming annual general meeting upon passing of the Proposed Mandate;

2) the date of expiration of a period of twelve months upon the date of passing of the Proposed Mandate;

3) the date on which the authority referred to in the Proposed Mandate is revoked or varied by passing a special resolution by the Company's shareholders at any general meeting or by holders of H Shares or domestic shares of the Company at their respective class meetings.

The Board has not exercised the mandate during the Reporting Period and as at the date of this Annual Report.

8. RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out in Note 38 to the Consolidated Financial Statements in this Annual Report.

9. DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2009 are set out in Note 38(b) to the Consolidated Financial Statements in this Annual Report.

10. MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the five largest customers and suppliers of the Group respectively accounted for less than 30% of the total sales and purchases of the Group. So far as the Board is aware, none of the Directors, supervisors of the Company (the "**Supervisors**"), their associates or any shareholder who owns 5% or above of the share capital of the Company had an interest in the major customers of the Group.

11. DIRECTORS AND SUPERVISORS

The Company's fourth session of the Board comprises Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Liu Wenying, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Li Youji, Ms. Dong Jianhong, Mr. Liu Shuangcheng, Mr. Zhao Fei, and independent non-executive Directors Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen; while the Company's fourth session of the Supervisory Committee comprises Mr. Zheng Luyu, Mr. Kong Lingfu, Mr. Xu Weilin, Mr. Shao Jianxin and Mr. Zhao Shengyao. The term of office of the fourth session of the Board and Supervisory Committee expired on 30 June 2009. At the Company's 2008 annual general meeting held on 19 June 2009, Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen, Mr. Liu Yongle, Ms. Dong Jianhong, Mr. Qu Dawei Mr. Li Xibin, and Mr. Chan Sau Shan, Gary, Mr. Chen Zhi, Mr. Luo Xiwen and Mr. Hong Xianguo were elected as Directors of the Company's fifth session of the Board; while Mr. Zheng Luyu, Ms. Yi Liwen, Mr. Wang Yong and Mr. Huang Ping were elected as non-staff representative Supervisors of the Company's fifth session of the Supervisory Committee. Pursuant to the Articles of Association, Mr. Zhao Shengyao and Mr. Shao Jianxin were elected as staff representative Supervisors of the Company's fifth session of the Supervisory Committee at the staff representatives' meeting of the Company on 8 June 2009. Starting from 1 July 2009, Mr. Liu Wenying, Mr. Li Tengjiao, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei ceased to be the Company's Directors; Mr. Lu Zhongmin ceased to be the independent non-executive Director of the Company; while Mr. Xu Weilin and Mr. Kong Lingfu ceased to be the Supervisors of the Company.

The term of office of the fifth Board and fifth session of the Supervisory Committee took effect on 1 July 2009 for three years. Members are as follows:

Executive Directors:

Mr. Liu Dagong
Ms. Dong Jianhong
Mr. Qu Dawei
Mr. Li Xibin

Non-executive Directors:

Mr. Zhao Yanshui
Mr. Yan Linjiao
Mr. Shao Haichen
Mr. Liu Yongle

Independent non-executive Directors:

Mr. Chan Sau Shan, Gary,
Mr. Luo Xiwen
Mr. Hong Xianguo
Mr. Chen Zhi (resigned on 21 August 2009)

China Academy of Agriculture Mechanization Sciences (中國農業機械化科學研究院) at which Mr. Chen Zhi, an independent non-executive Director of the Company, served his post underwent a reorganization in July 2009 and was merged into SINOMACH and became its wholly-owned subsidiary. Given that SINOMACH is a connected person of the Company, Mr. Chen Zhi does not satisfy the independence criteria in relation to independent non-executive directors as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). As such, Mr. Chen Zhi tendered his resignation as the Company's independent non-executive Director to the Board on 12 August 2009, which was subsequently accepted by the Board on 21 August 2009 and took effect on the same day.

Supervisors:

Mr. Zheng Luyu
Ms. Yi Liwen
Mr. Wang Yong
Mr. Huang Ping
Mr. Zhao Shengyao (staff representative Supervisor)
Mr. Shao Jianxin (staff representative Supervisor)

12. SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS AND REMUNERATION POLICY

The Company's executive Directors Mr. Liu Dagong, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin; non-executive Directors Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle; independent non-executive Directors Mr. Chan Sau Shan, Gary, Mr. Chen Zhi (resigned on 21 August 2009), Mr. Luo Xiwen and Mr. Hong Xianguo; and Supervisors Mr. Zheng Luyu, Ms. Yi Liwen, Mr. Zhao Shengyao, Mr. Shao Jianxin, Mr. Wang Yong and Mr. Huang Ping entered into service contracts with the Company on 1 July 2009 for a term commencing from 1 July 2009 to 30 June 2012. These service contracts were the same in all material aspects except for the remuneration packages. Details of the remunerations of the Directors and Supervisors of the Company are set out in Note 9 to the Consolidated Financial Statements in this Annual Report.

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

Remunerations of the Directors and Supervisors of the Company were determined by the remuneration committee of the Company (the "**Remuneration Committee**") after taking into consideration the factors including the salaries paid by comparable companies, the time commitment and responsibilities of the Directors and Supervisors and the remuneration of other positions within the Group.

13. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the Reporting Period and as at the date of this Annual Report, save as the service contracts stated in section 12 in this Annual Report and disclosed hereinafter, none of the Director or Supervisor of the Company had any direct or indirect material interest or any other interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

Mr. Li Xibin, an executive Director of the Company, owned 0.995% of the equity interests in YTO (Luoyang) Engine Machinery Company Limited (一拖（洛陽）動力機械有限公司) ("**YEMC**"), a subsidiary of the Company, and was indirectly interested in 2.284% of the equity interests in YTO (Luoyang) Diesel Engine Company Limited (一拖（洛陽）柴油機有限公司) ("**YLDC**"), a subsidiary of the Company, through its ownership of the equity interests in Luoyang Yunhao Corporate Management Consulting Co., Ltd. (洛陽雲昊企業管理諮詢有限公司). Mr. Li Xibin was therefore interested in the contracts concerning the supply of diesel engines and the relevant spare parts to the Group by YEMC and YLDC respectively. For the year ended 31 December 2009, YEMC and YLDC supplied diesel engines and the relevant spare parts amounting to RMB313,000,000 and RMB520,000,000 respectively to the Group in accordance with certain internal transaction agreements entered into with the Group from January to April, 2009.

14. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

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

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

During the Reporting Period, no rights were granted to any Directors, Supervisors of the Company, 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.

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

Except as disclosed below, as at 31 December 2009, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the Securities and Futures Ordinance), or as recorded in the register required to be kept by the Company under section 352 of the Securities and Futures Ordinance, 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.

Name	Name of subsidiary	Capacity	Registered capital of the subsidiary held	Approximate percentage of the total registered capital of the subsidiary
Li Xibin (Executive Director)	YEMC[1]	Beneficial Owner	RMB377,960	0.995%

Note: 1. YEMC was established in the PRC with limited liability. Its registered capital is RMB38,000,000. Mr. Li Xibin contributed RMB377,960 to YEMC, representing 0.995% of the total registered capital of YEMC.

17. CONTRACTS OF SIGNIFICANCE

Except for the transactions set out in the "CONNECTED TRANSACTIONS" section under session 20 in this Annual Report, neither the Company nor any of its subsidiaries has entered into any contract of significance with YTO, the controlling shareholder of the Company, or any of its subsidiaries during the Reporting Period.

18. CHANGES IN SHAREHOLDING AND STRUCTURE OF EQUITY INTERESTS OF SHAREHOLDERS

As at 31 December 2009, the total issued shares of the Company amounted to 845,900,000 shares. Its structure of equity interests was as follows:

Class of shares	**Number of shares**	**Percentage** *(%)*
(1) Non-circulating state-owned legal-person shares (the "**Domestic Shares**")	443,910,000	52.48
(2) Circulating shares listed on the Stock Exchange (the "**H Shares**")	401,990,000	47.52
Total share capital	845,900,000	100.00

19. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following shareholders 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 by the Company pursuant to section 336 of the Securities and Futures Ordinance:

Domestic Shares

Name of shareholder	Nature of interests	Number of shares	Approximate percentage of the total issued share capital of the Company
YTO	Beneficial owner	443,910,000[1]	52.48%

H Shares

Name of shareholder	Nature of interests	Number of shares	Approximate percentage of the total issued H shares of the Company
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000[1]	11.88%
Pictet Asset Management Limited	Investment manager	24,816,500[1]	6.17%

Note: 1. Relevant entities' long position in the shares of the Company.

Save as disclosed above, as at 31 December 2009, no person 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 Securities and Futures Ordinance.

The Company has maintained the prescribed public float under the Listing Rules as at the date of this Annual Report.

20. CONNECTED TRANSACTIONS

Save as disclosed in this section, the Group does not have any other connected transactions. Details of the Group's connected transaction (within the meaning under the Listing Rules) are set out in Note 46 to the Consolidated Financial Statements in this Annual Report.

(1) Continuing connected transactions

On 13 October 2006, the Company and YTO entered into a total of five continuing connected transaction agreements subject to independent shareholders' approval including First Tractor Supply Agreement, Material Supply Agreement, Composite Services Agreement and Energy Supply Service Agreement, and YTO Finance, a subsidiary of the Company, and YTO entered into the Financial Services Agreement ("**Five Agreements**"). On the same date, the Company and YTO entered into three agreements in relation to continuing connected transactions which were exempt from independent shareholders' approval, namely the First Tractor Properties Lease Agreement, Yituo Properties Lease Agreement and Yituo Facilities Lease Agreement ("**Three Agreements**"). All these agreements shall be effective for three years and shall expire on or around 31 December 2009. The Company has made disclosures pursuant to the relevant requirements under Chapter 14A of the Listing Rules. The Five Agreements and the relevant caps were approved by the shareholders at the extraordinary general meeting of the Company on 22 December 2006. Save for the above agreements, the Company and YTO entered into the Land Lease Agreement with a term of 40 years, Trademark Licence Agreement with a term of 30 years and Technical Service Agreement with permanent effect on 4 June 1997 and 6 June 1997 respectively. The cap amount and transaction amount of each of the abovementioned continuing connected transactions for the year ended 31 December 2009 are as follows:

Name	For the year ended 31 December 2009 Cap amounts (RMB'000)	Transaction amounts (RMB'000)
First Tractor Supply Agreement	1,372,000	420,755
Material Supply Agreement	1,646,000	1,151,558
Composite Services Agreement	206,000	73,434
Energy Supply Service Agreement	549,000	98,439
Financial Services Agreement		
Loan	846,000	209,650
Bills discounting	630,000	367,652
Finance lease	151,100	nil
Bills acceptance	42,000	nil
Guarantee	570,000	30,000
Designated loan	76,000	42,500
First Tractor Properties Lease Agreement	16,000	4,269
Yituo Properties Lease Agreement	4,900	4,011
Yituo Facilities Lease Agreement	13,000	71
Land Lease Agreement [1]	84,235	17,647
Trademark Licence Agreement [1]	84,235	14,740
Technical Service Agreement [1]	84,235	48,103

Note:

1 The considerations are up to 3% of the net tangible asset value of the Company. For the year ended 31 December 2009, the net asset value of the Company was amounted to RMB2,807,820,000.

Having reviewed the records and data of the above connected transactions, the independent non-executive Directors of the Company confirmed that the transactions were:

1) entered into in the ordinary and usual course of business of the Group;

2) conducted either on normal commercial terms as compared with transactions of similar nature carried out by similar entities in the PRC or, if no available comparison, on terms no less favourable than those available to independent third parties of the Group; and

3) entered into on terms that are fair and reasonable so far as the interests of the Company's shareholders as a whole are concerned.

After reviewing the above connected transactions for the year, the auditors of the Company confirmed that the above connected transactions have been in compliance with the requirements of Rule 14A.38 of the Listing Rules. No transactions have exceeded the cap amounts set out in the relevant announcements and approved by the independent shareholders of the Company during any time in the Reporting Period.

Taking into account that the Five Agreements and the Three Agreements would expire on or around 31 December 2009, in order to extend the Five Agreements and the Three Agreements to ensure the continual lease of properties as well as continual provision of goods and services such as material supply, energy supply and financial services to or from the Group necessary for its operating needs and sustainable corporate and business development of the Group, the Company (on behalf of its subsidiaries or the Group) and YTO (on behalf of its controlling shareholder, SINOMACH, and their respective controlled companies) entered into eight continuing connected transaction agreements ("**Eight Agreements**") on 21 October 2009, including five continuing connected transaction agreements subject to independent shareholders' approval, namely the First Tractor Supply Agreement, YTO Supply Agreement, YTO Composite Services Agreement and YTO Energy Supply Services Agreement and the Financial Services Agreement entered into between YTO Finance and YTO, and three continuing connected transaction agreements exempted from independent shareholders' approval, namely the First Tractor Properties Lease Agreement, YTO Properties Lease Agreement and YTO Land Lease Agreement. Save for the effective period of each of the Eight Agreements and the rights to lease additional premises from the lessor under each of YTO Properties Lease Agreement, First Tractor Properties Lease Agreement and YTO Land Lease Agreement, the terms and conditions of each of the Eight Agreements are similar to those in the Five Agreements or Three Agreements.

YTO beneficially owns approximately 52.48% of the issued share capital of the Company and is the controlling shareholder of the Company. Thus, YTO and its associates are regarded as connected persons of the Company under the Listing Rules. The Company has reported and made announcement pursuant to the relevant requirements of Chapter 14A of the Listing Rules on 21 October 2009. Four continuing connected transaction agreements including First Tractor Supply Agreement, YTO Supply Agreement, YTO Composite Services Agreement and YTO Energy Supply Services Agreement and the relevant cap amounts were approved by the independent shareholders at the extraordinary general meeting of the Company on 22 December 2009, while the Financial Services Agreement and the transactions contemplated thereunder were not approved by the independent shareholders of the Company. The cap amounts of the transactions contemplated under the abovementioned continuing connected transaction agreements approved by the independent shareholders of the Company and were exempt from independent shareholders' approval for each of the three years ended 2012 are as follows:

	2010 **Cap amounts** *(RMB'000)*	**2011** **Cap amounts** *(RMB'000)*	**2012** **Cap amounts** *(RMB'000)*
First Tractor Supply Agreement	1,200,000	1,440,000	1,800,000
YTO Supply Agreement	1,300,000	1,600,000	1,900,000
YTO Composite Services Agreement	100,000	120,000	140,000
YTO Energy Supply Services Agreement	200,000	240,000	300,000
First Tractor Properties Lease Agreement	8,000	10,000	12,000
YTO Properties Lease Agreement	6,000	7,000	8,000
YTO Land Lease Agreement	22,000	24,000	26,000

(2) One-off time connected transactions

(a) Connected transaction of YTO Finance purchasing Financing Bills of YTO

On 31 August 2009, YTO Finance, a non wholly-owned subsidiary of the Company, and China Citic Bank Corporation Limited ("**China Citic Bank**") entered into a distribution agreement, pursuant to which YTO Finance agreed to purchase the short-term financing bills ("**Financing Bills**") in the principal amount of RMB30,000,000 issued by YTO, the controlling shareholder of the Company, and distributed by China Citic Bank. The purchase of the Financing Bills by YTO Finance constitutes a connected transaction under Chapter 14A of the Listing Rules. As the relevant percentage ratios of the purchase of Financing Bills are less than 2.5%, the Company is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirement. The Company has reported and made announcement pursuant to the relevant requirements of the Listing Rules on 31 August 2009. YTO Finance has sufficient capital and the purchase of the Financing Bills is conducive to the efficient use of the capital.

(b) Connected transaction between the Company and Machinery Industry Fourth Design Institution (機械工業第四設計研究院) ("Fourth Design Institution")

On 19 November 2009 and 20 November 2009, the Company and Fourth Design Institution entered into four contracts, namely the Construction Management Agreement for Standard Equipments, Construction Agreement for Non-standard Equipments, Purchase Agreement and Project Management Agreement ("**Four Contracts**") at a total consideration of RMB47,709,900. As set out in the Four Contracts, the Company entrusted Fourth Design Institution to complete the design, purchase of equipment, installation, adjustment and testing, and project management for the large wheeled tractors project. Fourth Design Institution is an indirect wholly-owned subsidiary of SINOMACH, which is the ultimate controlling shareholder of the Company. Accordingly, Fourth Design Institution is regarded as a connected person of the Company and the transactions contemplated under the Four Contracts constitute connected transactions under the provisions of Chapter 14A of the Listing Rules. As the relevant percentage ratios of the total consideration of the Four Contracts are less than 2.5%, the Company is subject to reporting and announcement requirements but is exempt from independent shareholders' approval requirement. The Company has reported and made announcement pursuant to the relevant requirements under the Listing Rules on 20 November 2009. The entering into of the Four Contracts was for the purpose of construction of the assembly factories of the Company for large wheeled tractors to satisfy the market demand, consolidate the leading position of the Company in products and technologies in the PRC tractor industry as well as to enhance the core competitiveness and continued development of the Company.

(c) Connected transaction between CAMACO, a subsidiary of the Company, and YTO International Economic and Trading Co., Ltd. (一拖國際經濟貿易有限公司) ("YTO Trading")

On 29 December 2009, CAMACO, a subsidiary of the Company, entered into a share transfer agreement with each of YTO and YTO Trading, a wholly owned subsidiary of YTO, to acquire 50.28% and 43.30% equity interest of YTO Ketediwa Agricultural Machineries Assembly Co., Ltd. (一拖科特迪瓦農機裝配有限公司) ("**YTO Ketediwa**") from YTO and YTO Trading at a consideration of RMB2,687,773.68 and RMB2,314,649.97 respectively, determined with reference to an asset valuation report. Upon the completion of the acquisitions, CAMACO shall hold 93.58% equity interest of YTO Ketediwa. YTO and YTO Trading are connected persons of the Company and the acquisitions of the equity interests constitute connected transactions under the provisions of Chapter 14A of the Listing Rules. As the relevant percentage ratios of the acquisition of YTO Ketediwa were less than 2.5%, the Company was subject to the reporting and announcement requirements but was exempt from independent shareholders' approval requirement. The Company has reported and made announcement pursuant to the relevant requirements of the Listing Rules on 30 December 2009. The acquisition of the equity interest in YTO Ketediwa was for the purpose of implementing the co-operation project agreed in the cooperative framework agreement entered into between YTO and CADF in May 2008. Further, the acquisition can expand the market share of CAMACO and expand its market in Africa.

21. SIGNIFICANT EVENTS

(1) At the first meeting of the fifth Board of the Company, Mr. Liu Dagong was elected as the chairman of the Company. Mr. Qu Dawei was elected as the general manager of the Company. Ms. Ren Huijuan, Mr. Liu Jiguo, Mr. Li Xibin, Mr. Jin Yang, Mr. Lian Guoqing and Mr. Jiao Tianmin were appointed as deputy general managers of the Company. Ms. Dong Jianhong was appointed as the chief financial officer of the Company. Ms. Yu Lina was appointed as the secretary of the Board.

(2) In order to enhance the Company's overall production capacity of large wheeled tractors, cement and reinforce the leading position of the Company in the large wheeled tractor industry, and further enhance the core competitiveness and the capacity of sustainable development of the Company, as at 29 December 2009, the Board resolved to approve the investment of RMB404,200,000 to its large wheeled tractor construction project, upon completion of which the Company will achieve an annual production capacity of 33,000 sets of large wheeled tractors.

22. CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with the requirements of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules during the Reporting Period. Details are set out in Corporate Governance Report in this Annual Report.

23. MATERIAL LITIGATION

During the Reporting Period, none of the Company, the Directors, Supervisors nor the chief executives of the Company was involved in any material litigation or arbitration.

24. AUDITORS

At the Company's 2008 annual general meeting on 19 June 2009, Ernst & Young was approved as the Company's auditor for the year 2009. According to the provisions under the uniform management requirements promulgated by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the relevant provisions and as requested by SINOMACH, the ultimate controlling shareholder of the Company, Ernst & Young (the "**EY**") and Ernst & Young Hua Ming (the "**EY Hua Ming**") tendered their written consents to the Board on 16 October 2009 for terminating their service contracts as the Company's international and PRC auditors respectively. At the Company's extraordinary general meeting on 22 December 2009, the appointments of UHY Vocation HK CPA Limited ("**UHY**") and Vocation International Certified Public Accountants Company Limited ("**Vocation**") to replace EY and EY Hua Ming as the Company's international and PRC auditors respectively for the year 2009 were approved.

EY and EY Hua Ming have confirmed that they would not claim against the Company in respect of their resignations. EY and EY Hua Ming also confirmed that there were no other matters with respect to their resignations that need to be brought to the attention of the shareholders of the Company, and there were no conflicts as to their resignations between the Board and EY and EY Hua Ming.

25. TAX CONCESSION

Holders of listed securities of the Company were not granted any tax concession for holding securities of the Company.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
9 April 2010

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has been proactively complying with all the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules (the "**Code**"), and implementing comprehensive governance and disclosure measures to ensure the sustainable and healthy growth of the Company. The Board has established audit committee (the "**Audit Committee**") and Remuneration Committee to ensure efficient operation of the Board and implementation of internal control. Meanwhile, it has set up a regulatory system catering to the management of the Company for effective implementation of their respective duties. The Company will continue to enhance its corporate governance measures and transparency.

THE BOARD OF DIRECTORS

The tenure of the fourth session of the Board of the Company expired on 30 June 2009. The fifth session of the Board of the Company was established by election at the 2008 annual general meeting of the Company on 19 June 2009. The fifth session of the Board comprises twelve Directors, including four executive Directors: namely Mr. Liu Dagong (chairman), Ms. Dong Jianhong, Mr. Qu Dawei, Mr. Li Xibin; four non-executive Directors: namely Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle; and four independent non-executive Directors: namely Mr. Chan Sau Shan, Gary, Mr. Chen Zhi, Mr. Luo Xiwen and Mr. Hong Xianguo. Members of the fifth session of the Board including Mr. Liu Dagong, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen, Ms. Dong Jianhong, Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Chen Zhi were former Directors of the fourth session of the Board and were reelected. Mr. Liu Yongle, Mr. Qu Dawei, Mr. Li Xibin and Mr. Hong Xianguo were newly appointed as Directors of the Company since 1 July 2009. Directors of the fourth session of the Board, namely Mr. Liu Wenying, Mr. Li Tengjiao, Mr. Li Youji, Mr. Liu Shuangcheng, Mr. Zhao Fei and Mr. Lu Zhongmin, resigned as a Director of the Company since 1 July 2009. The respective biographical details of each of the Directors are set on page 22 to page 25 of this Annual Report.

Mr. Chen Zhi is an employee of China Academy of Agriculture Mechanization Sciences (中國農業機械化科學研究院), which joined SINOMACH in July 2009. As a result, Mr. Chen Zhi is no longer independent from the Company. Therefore, the Board accepted the resignation of Mr. Chen Zhi on 21 August 2009. Pursuant to the Articles of Association, the Board shall comprise 12 Directors. There were 11 Directors in the Board as at 31 December 2009. After the resignation of Mr. Chen Zhi, there is a vacancy for Director in the Board.

The Company has received the annual confirmation letter issued by each of independent non-executive Directors 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.

The Board is the legal business decision body of the Company. It is responsible for the leading and supervising 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 Group's development and operating strategy and policy, making annual budget and final accounting scheme, and annual business plans, proposing dividend plans as well as supervising management members in accordance with relevant laws and regulations, rules, the Articles of Association. The management of the Company is led by the general manager and is responsible for supervising the Company's day-to-day operation, policy planning and implementation as well as reporting to the Board in respect of operating business. The general manager keeps in contact with all Directors and ensures Directors' timely understanding of information in relation to operating activities.

Basic principles applied in the meetings of the Board include group decision, individual responsibility and the minority going along with the decision of the majority.

During the Reporting Period, the fourth session of the Board of the Company convened a total of three meetings. Attendance of each Director is as follows:

	Name of Directors	**Number of attendance/ number of possible attendance**
Chairman	Mr. Liu Dagong	3/3
Executive Directors	Mr. Zhao Yanshui	3/3
	Mr. Liu Wenying	3/3
	Mr. Yan Linjiao	3/3
	Mr. Li Tengjiao	3/3
	Mr. Shao Haichen	3/3
	Mr. Li Youji	1/3
	Ms. Dong Jianhong	3/3
	Mr. Zhao Fei	3/3
	Mr. Liu Shuangcheng	3/3
Independent non-executive Directors	Mr. Lu Zhongmin	3/3
	Mr. Chen Sau Shan, Gary	3/3
	Mr. Chen Zhi	3/3
	Mr. Luo Xiwen	3/3

During the Reporting Period, the fifth session of the Board of the Company convened a total of six meetings (including the extraordinary meeting of the Board held by way of written resolutions). Attendance of each Director is as follows:

	Name of Directors	**Number of attendance/ number of possible attendance**
Chairman	Mr. Liu Dagong	6/6
Executive Directors	Ms. Dong Jianhong	6/6
	Mr. Qu Dawei	6/6
	Mr. Li Xibin	6/6
Non-executive Directors	Mr. Zhao Yanshui	6/6
	Mr. Yan Linjiao	6/6
	Mr. Shao Haichen	6/6
	Mr. Liu Yongle	6/6
Independent non-executive Directors	Mr. Chen Sau Shan, Gary	6/6
	Mr. Chen Zhi	1/1
	Mr. Luo Xiwen	4/6
	Mr. Hong Xianguo	6/6

All of the three independent non-executive Directors, namely Mr. Chen Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo, met the evaluations on independence set out in Rule 3.13 of the Listing Rules.

All members of the Board had no relationship with each other in respect of finance, business, family or other material/connected relationship.

The Board convened four regular meetings this year. Notice was delivered fourteen days prior to the date of each regular meeting to ensure that all Directors have the opportunity to propose discussion matters to be listed in the agenda. Files containing the meeting agenda were sent to all Directors before the date of the meeting. Notices of other Board meetings have also been delivered in compliance with the requirement of the Articles of Association within a reasonable time to provide chances to all Directors to allocate time for attendance.

All Directors can access to opinion and services of the secretary to the Board, including information regarding the meeting agenda, minutes of meetings and the Group's latest development and business progress, etc.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The chairman of the Board is Mr. Liu Dagong while the general manager of the Company is Mr. Qu Dawei.

Biographical details of the chairman of the Board and the general manager of the Company are set out on page 22 of this Annual Report.

During the Reporting Period, the duty of the Board's operation and management was clearly separated from that of the Company's day-to-day business management, and with a balance of power and authority. There is no indication that power was concentrated in any individual.

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

During the Reporting Period, the term of the seven non-executive Directors (including three independent non-executive Directors) of the Company is three years from 1 July 2009 to 30 June 2012.

All of the seven non-executive Directors possess proper professional qualifications, among which, the independent non-executive Director Mr. Luo Xiwen is an expert in agricultural machinery and an academician of Chinese Academy of Engineering; the independent non-executive Director Mr. Hong Xianguo is an expert in agricultural machinery industry while the independent non-executive Director Mr. Chen Sau Shan, Gary has long been engaged in investment banking and has extensive experience in financial management.

SECURITIES TRANSACTION BY DIRECTORS

During the Reporting Period, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries to all Directors and all of them have complied with the Model Code.

DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS

The Directors of the Company declare that they are responsible for preparing financial statements to reflect a true and fair view of the Company for this financial year. The auditors' statement on their reporting duty is also incorporated in this Annual Report, but such statement and the Directors' declaration should be independent from each other.

The Directors of the Company consider that the Company has implemented proper accounting policies and complied with all relevant accounting standards in preparation of the financial statements.

The Directors of the Company have the duty to ensure the Company's accounting records are properly kept, which must reasonably and precisely disclose the financial condition of the Company. Financial statements of the Company shall be prepared in accordance with laws in PRC, disclosure requirements in Hong Kong Companies Ordinance and the relevant accounting standards.

DIRECTORS' REMUNERATION AND REMUNERATION COMMITTEE

In accordance with the provisions of the Listing Rules, the Company has set up the Remuneration Committee which comprises Mr. Liu Yongle (chairman and non-executive Director), Ms. Dong Jianhong (executive Director), Mr. Chen Sau Shan, Gary (independent non-executive Director), Mr. Luo Xiwen (independent non-executive Director) and Mr. Hong Xianguo (independent non-executive Director). The terms of reference thereof are set out as follows:

(a) to study and formulate remuneration policies for Directors and senior management of the Company with consideration to factors including the salaries paid by comparable companies, the time commitment and responsibilities of the Directors and senior management and the remuneration of other positions within the Group, ensuring that the remuneration policies are commensurate with their responsibilities, performances and contributions;

(b) to propose the terms of service contracts of the Directors pursuant to the requirements under Rule 13.68 of the Listing Rules and give advice to the shareholders in respect of Directors' service contracts which are subject to approval at general meetings; and

(c) to assess the performance of executive Directors after taking into consideration of the Group's annual operating results and give advice to the Board.

During the Reporting Period, the Remuneration Committee convened one meeting to discuss matters relating to the remuneration of the Directors of the Company. All members of the Remuneration Committee attended the meeting. Details of the remuneration of the Directors of the Company are set out in Note 9 to the Consolidated Financial Statements in this Annual Report.

NOMINATION OF DIRECTORS

Election and change of Directors are subject to consideration in general meeting pursuant to the requirements of the Articles of Association. Shareholders holding 5% or more (including 5%) of the total number of shares carrying voting rights of the Company have the right to raise a proposal, provided that a written notice as regards the intention to nominate a candidate as Director and the willingness of such candidate to accept the nomination should be delivered to the Company not less than 7 days before the date of the general meeting. The Company shall give notice of a general meeting not less than 45 days and not more than 60 days before the date of the meeting. In case that the Company receives a written notice to nominate a Director from a shareholder after publication of the notice of general meeting, the Company must issue an announcement or a supplementary circular as required under Rule 13.70 of the Listing Rules. The announcement or supplementary circular shall include information of the candidate nominated as a Director. The Company must also assess whether it is necessary to adjourn the meeting of the election to give the shareholders at least 14 days to consider the relevant information disclosed in the announcement or supplementary circular and to vote on their discretion. Consent of more than half of the shareholders (including their proxies) with voting rights present at the meeting is required for election of a new Director.

Independent non-executive Directors of the Company shall be nominated by the Board, whose appointment is subject to approval of the shareholders of the Company at general meetings.

Nomination of Directors is made on the basis of, among others, expertise, work experience, diligence, fairness and objectiveness as well as level of knowledge.

During the Reporting Period, the Board convened one meeting to discuss matters in relation to nomination of Directors. All Directors attended the meeting.

AUDITORS' REMUNERATION

EY and EY Hua Ming were the international and the PRC auditors for the first half year 2009 of the Group respectively. They were responsible for the financial statements of the Group for the half year ended 30 June 2009 prepared under the Hong Kong Financial Reporting Standards and PRC Accounting Standards respectively.

UHY and Vocation were appointed as the international and the PRC auditors for the year 2009 of the Company respectively on 22 December 2009. They were responsible for the audit in relation to the financial statements of the Group as at 31 December 2009 prepared under the Hong Kong Financial Reporting Standards and PRC Accounting Standards respectively.

EY charged an aggregate of RMB6,000,000 for auditors' remuneration during the Reporting Period, which included taxes and disbursements, among which, RMB5.5 million represented the annual audit fee for 2008 and RMB0.5 million represented the fee of financial statements of the Group for the first half year ended 30 June 2009. During the Reporting Period, EY has also provided relevant services of profits tax returns, with a charge of RMB9,198. The Board considers that provision of the aforesaid services to the Company has no influence on the independency of EY and EY Hua Ming.

AUDIT COMMITTEE

As required under the Listing Rules, the Company has set up the fifth session of Audit Committee of the Board. The terms of reference thereof are in compliance with C.3.3 of the Code as in Appendix 23 to the Listing Rules, and relevant policies, laws and regulations that the Company is subject to, and include but are not limited to:

(i) to oversee the relationship with the external auditors of the Company, including but not limited to giving advice on appointment, reappointment and removal of external auditors to the Board, approving the audit fee and terms of appointment of external auditors, and raising any questions in respect of their resignations or dismissals;

(ii) to review the annual and interim financial reports of the Company whether they are in compliance with the accounting standards and relevant requirements in respect of financial reporting under the Listing Rules and other laws;

(iii) to regulate and review the effectiveness of the internal control system of the Company, which involves reviewing the finance, operation, regulatory compliance and risk management system of the Company, particularly the implementation of connected transactions;

(iv) to give advice on proper operation of the Company.

The Audit Committee of the fourth session of the Board of the Company comprises Mr. Lu Zhongmin (chairman and independent non-executive Director), Mr. Chan Sau Shan, Gary (independent non-executive Director) and Mr. Chen Zhi (independent non-executive Director).

The Audit Committee of the fifth session of the Board of the Company comprises Mr. Chan Sau Shan, Gary (chairman and independent non-executive Director), Mr. Yan Linjiao (non-executive Director) and Mr. Luo Xiwen (independent non-executive Director).

During the Reporting Period, the Audit Committees of the fourth session and the fifth session of the Board of the Company reviewed all accounting principles and practices adopted by the Group and discussed the matters in respect of internal control and financial statements. The Audit Committees of the fourth session and the fifth session of the Board convened four meetings with the general manager, the financial controller and the external auditors of the Company.

Attendance of members of the Audit Committee of the fourth session of the Board of the Company are as follows:

Name	**Number of attendance/ number of possible attendance**
Mr. Lu Zhongmin	2/2
Mr. Chan Sau Shan, Gary	2/2
Mr. Chen Zhi	1/2

The Audit Committee of the fourth session of the Board of the Company reviewed the financial report of the Group for the year 2008 and the appointment and remuneration of the external auditors and advised the Board on the above matters.

Attendance of members of the Audit Committee of the fifth session of the Board of the Company are as follows:

Name	**Number of attendance/ number of possible attendance**
Mr. Chan Sau Shan, Gary	2/2
Mr. Yan Linjiao	2/2
Mr. Luo Xiwen	1/2

The Audit Committee of the fifth session of the Board reviewed the interim financial report of the Group for the year 2009, the annual financial report of the Group for the year 2009 and the implementation of connected transactions and advised the Board in respect of the change and remuneration of the external auditors of the Company.

There is no disagreement between the Audit Committee and the Board on the matters in relation to the change and appointment of new auditors.

INTERNAL CONTROL

In order to comply with the relevant regulations, strengthen the management of internal control of the Company and assure a proper and effective internal control system, the Company formulated a range of internal control systems and management standards and examined the overall financial position of the Company to secure the Company's assets. It also standardized the Company's operation and management process to ensure that decisions of the Board are in compliance with the laws and regulations and are implemented. It conducts regular supervision on risk management for avoidance of material risks or losses. To implement the Group's development strategy and operating policy, the Company formulated management systems relating to the Company's corporate governance and enhanced the management on subsidiaries of the Company and regulated their performance.

During the Reporting Period, the Board have reviewed the internal control system of the Company and its subsidiaries, and are satisfied with the overall performance. The Audit Committee has been performing its duties and has reviewed and discussed the internal control system of the Company.

GENERAL MEETINGS AND INVESTOR RELATIONS

The general meeting, which is the highest authority of the Company, provides a channel for the Board and the shareholders of the Company to communicate directly in order to build a sound relationship. The Board is committed to maintaining effective communications with shareholders. In 2009, the Company convened two general meetings in total (the annual general meeting held on 19 June 2009 and the extraordinary general meeting held on 22 December 2009) and voted in respect of every separate matter by separate resolution.

The Company revised the Articles of Association during the Reporting Period. The number of the members of the Board was adjusted from 14 to 12 and the number of the members of the Supervisory Committee was adjusted from 5 to 6. In addition, pursuant to certain amendments to the Listing Rules by the Stock Exchange and the relevant provisions of the Company Law of the People's Republic of China ("**Company Law**") implemented since 1 January 2006, the Company amended 58 provisions of the Articles of Association, including those under the two chapters of "Means of Notice of General Meeting" and "Dissolution and Liquidation" which involve the means of notice of creditors and added the provisions of electronic means of communication for dispatching corporate communications to shareholders. Except for the amendments to the Articles of Association which were approved at the 2008 annual general meeting of the Company held on 19 June 2009, the Articles of Association has no any other material changes.

Details of the shareholder categories of the Company and total number of holdings were set out from page 38 to page 39 of this Annual Report. The capitalization of public float of the Company reached HK$2,022,009,700 as at 31 December 2009.

During the Reporting Period, there was no material uncertained events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
9 April 2010

REPORT OF THE SUPERVISORY COMMITTEE

During the Reporting Period, pursuant to the regulations set out in the Company Law and the Articles of Association, the Supervisory Committee, in compliance with the principles of good faith and integrity, being responsible to the shareholders and the Company, prudently and diligently discharged their supervising duties and committed to protecting the legal interests of the shareholders as a whole and the Company. I herein present the working report on behalf of the Supervisory Committee as follows:

REVIEW ON THE WORK OF THE SUPERVISORY COMMITTEE

1. During the Reporting Period, the Supervisory Committee convened three meetings in accordance with the requirements of the Company Law and the Articles of Association.

   (1) On 20 April 2009, the fourth session of the Supervisory Committee convened a meeting. All Supervisors attended the meeting at which the following proposals were considered and approved:

      i) the report of the Supervisory Committee for the year 2008;

      ii) the financial statements of the Company prepared in accordance with Hong Kong and PRC accounting standards for the year 2008;

   (2) On 26 June 2009, the fifth session of the Supervisory Committee convened a meeting. 5 out of 6 Supervisors attended the meeting, at which Mr. Zheng Lu Yu was elected as the chairman of the Supervisory Committee.

   (3) On 21 August 2009, the fifth session of the Supervisory Committee convened a meeting. 5 out of 6 Supervisors attended the meeting, at which the interim financial report for the year 2009 was considered and approved.

2. During the Reporting Period, the Supervisors of the Company attended the Board meetings, participated in the Company's major activities, monitored the matters resolved by the Board and discharged their duties of supervising the Directors, the general manager and other senior management staff of the Company.

INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2009 ARE AS FOLLOWS:

1. During the Reporting Period, the Supervisory Committee did not receive any report of or discover any violation of the Articles of Association, the laws and regulations and actions that infringed the Company's interests by the Company. In the opinion of the Supervisory Committee, the Board managed to standardize the Company's operation in accordance with the Company Law, Articles of Association and relevant laws, regulations and systems. The Directors and the senior management of the Company were devoted to their duties, acted in compliance with rules and laws and upheld in the interests of all shareholders and the Company.

2. During the Reporting Period, the Company had no material litigation nor did the Supervisory Committee have any negotiations with the Directors or bring any actions against them on behalf of the Company.

3. The Supervisory Committee is of the view that, during the Reporting Period, the connected transactions of the Company were carried out in accordance with the principles of fair and reasonable and were in the interest of the shareholders of the Company as a whole and there had not any actions infringing the interest of the shareholders.

4. The Supervisory Committee considers that the financial statements of the Group for the year ended 31 December 2009 which have been audited by UHY and Vocation, reflect a true and fair view of the operating results and assets of the Group this year.

5. The Supervisory Committee verified the financial statements and the proposal of distribution of final dividend for the year 2009, which are to be proposed at the general meeting by the Directors. The Supervisory Committee considers that the above statements and the proposal comply with the provisions of the relevant laws and regulations and the Articles of Association.

In 2010, the Supervisory Committee will continue to perform their duties as stipulated in the Company Law and the Articles of Association to protect the interests of the shareholders and the Company.

By order of the Supervisory Committee
Zheng Lu Yu
Chairman of the Supervisory Committee

Luoyang, the PRC
9 April 2010

SUPPLEMENTARY INFORMATION

The following details are the supplementary information related to the Group's financial business. This information does not form part of the audited financial statements.

FINANCIAL BUSINESS

During the Reporting Period, all of the Group's financial businesses were conducted in the PRC. The Group's financial businesses are primarily undertaken by YTO Finance, a subsidiary of the Company. The principal financial businesses of YTO Finance include assistance to 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 counterpart loans; underwriting of corporate bonds of its member companies; making equity investments in financial institutions; and provisions of buyer credit and finance lease of the products of its member companies.

Risk Management Committee was established under the Board of YTO Finance to avert financial risk and so did an auditing department to inspect the company's operations (either periodical or non-periodical), issue independent audit report and report to the Board. Under the management of YTO Finance, the Internal Control Committee, Asset-Liabilities Management Committee, Loan Approval Committee and Investment Audit Committee were established to manage and control the company's internal control system, asset and liabilities structure, loans and investment businesses. A compliance department was also established to regulate the corporate system and maintain risk resistance of YTO Finance. Provision of services regarding loans, discounts, finance lease and bills acceptance to its connected person is subject to real time supervision through technical measures by the compliance department of YTO Finance so as to strictly control the amounts of connected transactions.

RISK MANAGEMENT QUALITY

Credit risk

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

YTO Finance has adhered to a prudent business approach in opening 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 collective 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.

In respect of the investment business, YTO Finance insisted on the principle of "Pursue Liquidity But Not High Return, Invest With Prudent" and strictly adhered to the investment plans decided at the general meetings, investment proposals decided and investment portfolio, amounts and strategies determined by the Board. The Investment Audit Committee conducted comprehensive evaluation and collective review on the investigation reports on investment projects, while the general manager organized the implementation of investment proposals and other investment business procedures. YTO Finance monitored the financial instruments or businesses exposed to market risks in a prudent manner and on regular basis, and made specific arrangements to minimize the risks.

The credit department and investment department of YTO Finance regularly reported the latest interest rates and price movement in the capital market, as well as the developing trend of the relevant countries in relation to macro financial policies to the Loan Approval Committee and the Investment Audit Committee.

Liquidity risk

Liquidity risk (also known as payment risk) is the risk that a company is unable to finance for reduction in liability or increase in assets, which in turn affects YTO Finance's profitability or brings difficulties for settlement.

Keeping a close eye on the structure and position 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 China Banking Regulatory Commission, thereby setting out or adjusting corresponding operating polices to maximize the company's interests on the basis of payment guarantee. During the Reporting Period, YTO Finance strictly enforced regulations and business procedures such as Administration Measures for Settlement and Procedures for Internal Transfer and Settlement, regularly convened meetings of the Assets-liabilities Management Committee, supervised and controlled liquidity and ensured that the level of liquidity ratio is not less than 25%.

Operational risk

Operational risk is the risk resulting from human errors, frauds or unexpected accidents in daily operations of YTO Finance.

With a series of internal control systems and policies to regulate its business, YTO Finance has specified duties of each department as well as workflows and authorities of its business. By virtue of staff training, inspection (either periodical or non-periodical) of the auditing department, amendment to the internal control system by the Internal Control Committee from time to time, and improving the overall operating and managerial standard of YTO Finance so as to prevent the operational risk.

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.

To establish a strong compliance culture, an effective compliance risk management system and the accountability system for compliance risk management, YTO Finance implements honest and diligent work integrity and values while employing legal advisors with the compliance department to review the internal control system against the compliance risk. During the Reporting Period, the Luoyang Branch of the China Banking Regulatory Commission conducted regulatory evaluation and inspection on YTO Finance and was not aware of any non-compliance situation. The evaluation result was good.

As at 31 December 2009, YTO Finance's capital adequacy ratio was 64.2%; statutory reserve deposits ratio was 11%; liquidity ratio was 50.19%; self-owned fixed assets investment ratio was 0.98%; short-term securities investment ratio was 0; long-term investment ratio was 6.32%; non-performing loan ratio was 0.33%; distressed assets ratio was 0.27%; adequacy ratio of reserve for loss from loans was 269.24%; ratio of guarantee risk exposure and total capital was 5.36% and ratio of inter-bank borrowing and total capital was 0. All the above ratios were in compliance with the requirements of regulations and supervision of China Banking Regulatory Commission.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2009 annual general meeting (the "**AGM**") of First Tractor Company Limited (the "**Company**") will be held at 9:00 a.m. on Friday, 11 June 2010 at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**") for the purpose of passing the following resolutions:

(1) AS ORDINARY RESOLUTIONS:

1. To consider and approve the report of the board ("**Board**") of directors ("**Directors**") of the Company for the year 2009.

2. To consider and approve the report of the supervisory committee of the Company for the year 2009.

3. To consider and approve the audited financial report for the year 2009.

4. To consider and approve the distribution proposal of the Company in respect of the dividend for the year ended 31 December 2009.

5. To consider and approve the re-appointment of UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Company Limited as international and PRC auditors of the Company for the year 2010 and to authorize the Board to determine their remunerations.

(2) AS SPECIAL RESOLUTIONS:

1. Subject to compliance with provisions under Chapters 14 and 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to, among other things, shareholders' approval, and other relevant provisions, and the accumulated limit not exceeding 50% of the latest audited net assets values of the Company (consolidated financial statements), to authorize the Board to determine matters related to investment and execute relevant investment agreements and other relevant documents, such investment scope includes: (i) short-term investments, which refer to investments (ready to be realized in anytime) purchased by the Company and will be held for no more than one year (including one year), including shares, funds, bonds, etc; (ii) long-term investments, which refer to all types of investments made by the Company which cannot be or are not ready to be realized within one year, including investments in bonds, equity interests and other investment etc; (iii) projects on mergers and acquisitions, assets disposals, etc.; and to authorize the Board to determine (including but not limited to) (i) investment plans; (ii) targets to be invested; (iii) actual investment amounts; (iv) actual investment methods (including by way of issuance of domestic shares or overseas listed foreign shares); (v) actual time of investments, within the period from the date of convening 2009 annual general meeting to the date of convening 2010 annual general meeting.

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

2. To approve the Company of placing, issuing or dealing with domestic shares and overseas listed foreign shares of the Company solely or jointly within the relevant period (as defined hereunder) with an amount of no more than 20% of the issued shares of that class of shares of the Company as at the date of passing of this special resolution, provided that China Securities Regulatory Commission and the relevant governmental authorities granting the relevant approvals; and to authorize the Board to handle the matters in relation to such placement or issue and to make any necessary amendments as it considers appropriate to the Articles of Association of the Company, so as to reflect the changes in the structure of share capital of the Company resulting from such placement or issue of shares.

   For the purpose of this special resolution, "relevant period" means the period from the date of passing this special resolution to the earlier of:

   (a) the conclusion of the next annual general meeting following the passing of this special resolution;

   (b) the last day of the 12 months from the date of passing this special resolution; and

   (c) the date on which the authorization under this special resolution is revoked or amended by a special resolution passed at a general meeting of the Company.

3. To authorize the Board to declare an interim dividend to the shareholders of the Company for the half year ended 30 June 2010.

Notes:

1. The register of members of the Company will be temporarily closed from 12 May 2010 to 10 June 2010 (both days inclusive) during which no transfer of shares of the Company (the "**Shares**") will be registered in order to determine the list of shareholders of the Company (the "**Shareholders**") for attending the AGM. The last lodgment for the transfer of the H Shares of the Company should be made on 11 May 2010 at Hong Kong Registrars Limited by or before 4:30 p.m. The Shareholders or their proxies being registered before the close of business on 11 May 2010 are entitled to attend the AGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. Each Shareholder having the rights to attend and vote at the AGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorization must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the AGM or any adjournment thereof.

4. Shareholders who intend to attend the AGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 21 May 2010.

5. Shareholders or their proxies shall present proofs of their identities upon attending the AGM. Should a proxy be appointed, the proxy shall also present the Proxy Form.

6. The AGM is expected to last for less than one day. The Shareholders and proxies attending the AGM shall be responsible for their own travelling and accommodation expenses.

7. The Company's registered address:

   No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
   Postal code: 471004
   Telephone: (86379)6496 7038
   Facsimile: (86379)6496 7438
   Email: msc0038@ytogroup.com

As at the date of this notice, the Board comprises four executive Directors, namely Mr. Liu Dagong, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin, and four non-executive Directors, namely Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle, and three independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo.

Luoyang, the PRC
26 April 2010

INDEPENDENT AUDITOR'S REPORT

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 67 to 200 which comprise the consolidated and company statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 2009 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.

UHY VOCATION HK CPA LIMITED
Certified Public Accountants

DAVID TZE KIN NG, AUDITOR
Practising Certificate Number P553

Hong Kong, 9 April 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	6	**8,971,261**	7,933,721
Cost of sales		**(7,703,072)**	(7,108,592)
Gross profit		**1,268,189**	825,129
Other income and gains	6	**76,865**	40,131
Selling and distribution costs		**(297,534)**	(272,187)
Administrative expenses		**(606,231)**	(402,624)
Other expenses		**(60,886)**	(62,317)
Finance costs	8	**(15,040)**	(37,643)
Share of losses of associates		**(7,222)**	(82)
Profit before income tax	7	**358,141**	90,407
Income tax expense	11	**(84,196)**	(9,528)
Profit for the year		**273,945**	80,879
Profit attributable to:			
Equity holders of the Company	12	**244,488**	68,505
Minority interest		**29,457**	12,374
		273,945	80,879
Dividend	13		
Proposed final		**101,508**	42,295
Earnings per share attributable to equity holders of the Company	14		
Basic earnings per share		**RMB28.90 cents**	RMB8.10 cents

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Profit for the year		**273,945**	80,879
Other comprehensive income:			
Currency translation differences		**1,491**	(2,901)
Changes in fair value of available-for-sale financial assets, net of tax		**46,275**	(50,386)
Total comprehensive income for the year		**321,711**	27,592
Attributable to:			
Equity holders of the Company		**293,199**	15,218
Minority interest		**28,512**	12,374
Total comprehensive income for the year		**321,711**	27,592

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,176,405**	1,163,237
Prepaid operating leases	16	**76,689**	79,158
Goodwill	17	**52,990**	52,990
Interests in associates	19	**11,696**	18,918
Available-for-sale financial assets	20	**168,476**	106,959
Loans receivable	21	**135,278**	214,123
Deferred income tax assets	35	**59,243**	49,107
Total non-current assets		**1,680,777**	1,684,492
Current assets			
Inventories	22	**1,018,867**	842,003
Trade and bills receivables	23	**878,320**	813,872
Loans receivable	21	**255,624**	209,069
Bills discounted receivable	24	**147,415**	129,283
Prepayments, deposits and other receivables	25	**612,018**	404,604
Tax recoverable		**1,728**	5,706
Financial assets at fair value through profit or loss	27	**28,942**	4,444
Held-to-maturity financial assets	28	**10,140**	—
Pledged bank balances	29	**294,197**	366,357
Cash and cash equivalents	29	**915,181**	758,535
		4,162,432	3,533,873
Assets of a disposal group classified as held for sale	41	**—**	317,012
Total current assets		**4,162,432**	3,850,885
Current liabilities			
Trade and bills payables	30	**1,670,441**	1,448,998
Other payables and accruals	31	**423,980**	443,778
Customer deposits	33	**296,246**	198,217
Interest-bearing bank borrowings	34	**143,000**	167,000
Current income tax liabilities		**62,570**	12,913
Provisions	32	**36,369**	28,084
		2,632,606	2,298,990

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Liabilities directly associated with the assets of a disposal group classified as held for sale	41	—	206,263
Total current liabilities		**2,632,606**	2,505,253
Net current assets		**1,529,826**	1,345,632
Total assets less current liabilities		**3,210,603**	3,030,124
Non-current liabilities			
Interest-bearing bank borrowings	34	—	144,000
Deferred income	36	**103,700**	103,774
Deferred income tax liabilities	35	**13,109**	4,332
Provisions	32	**88,200**	35,581
Total non-current liabilities		**205,009**	287,687
Net assets		**3,005,594**	2,742,437
Equity			
Attributable to the holders of the Company			
Share capital	37	**845,900**	845,900
Reserves	38(a)	**1,867,818**	1,676,691
Proposed final dividend	13	**101,508**	42,295
		2,815,226	2,564,886
Minority interest		**190,368**	177,551
Total equity		**3,005,594**	2,742,437

The notes are an integral part of these consolidated financial statements.

Liu Dagong	**Qu Dawei**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

		Attributable to the equity holders of the Company														
	Note	Issued capital RMB'000 Note 37	Share premium RMB'000 Note 37	Capital reserve RMB'000 Note 38(a)	Statutory surplus reserve RMB'000 Note 38(a)	General surplus reserve RMB'000 Note 38(a)	Reserve fund RMB'000 Note 38(a)	Enterprise expansion fund 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	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2008		845,900	1,539,938	—	99,695	64,744	3,373	2,356	4,841	74,932	(8,772)	(77,339)	25,377	2,575,045	177,848	2,752,893
Comprehensive income																
Profit for the year		—	—	—	—	—	—	—	—	—	—	68,505	—	68,505	12,374	80,879
Other comprehensive income																
Currency translation differences		—	—	—	—	—	—	—	—	—	(2,901)	—	—	(2,901)	—	(2,901)
Changes in fair value of available- for-sale financial assets, net of tax		—	—	—	—	—	—	—	—	(50,386)	—	—	—	(50,386)	—	(50,386)
Total other comprehensive income		—	—	—	—	—	—	—	—	(50,386)	(2,901)	—	—	(53,287)	—	(53,287)
Total comprehensive income		—	—	—	—	—	—	—	—	(50,386)	(2,901)	68,505	—	15,218	12,374	27,592
Transactions with owners																
Dividend paid to minority shareholders		—	—	—	—	—	—	—	—	—	—	—	—	—	(12,671)	(12,671)
Final 2007 dividend declared		—	—	—	—	—	—	—	—	—	—	—	(25,377)	(25,377)	—	(25,377)
Proposed final 2008 dividend	13	—	—	—	—	—	—	—	—	—	—	(42,295)	42,295	—	—	—
Transfers from/(to) reserves	38(a)	—	—	—	13,824	—	217	217	304	—	—	(14,562)	—	—	—	—
Total transactions with owners		—	—	—	13,824	—	217	217	304	—	—	(56,857)	16,918	(25,377)	(12,671)	(38,048)
Balance at 31 December 2008		845,900	1,539,938*	—	113,519*	64,744*	3,590*	2,573*	5,145*	24,546*	(11,673)*	(65,691)*	42,295	2,564,886	177,551	2,742,437

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Year ended 31 December 2009

		Attributable to the equity holders of the Company														
	Note	Issued capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	Reserve fund	Enterprise expansion fund	General and statutory fund	Available-for-sale financial assets reserve	Exchange reserve	(Accumulated losses) / retained earning	Proposed final dividend	Total	Minority interest	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	RMB'000	RMB'000
		Note 37	Note 37	Note 38(a)	Note 38(a)	Note 38(a)	Note 38(a)	Note 38(a)	Note 38(a)							
Balance at 1 January 2009		845,900	1,539,938	–	113,519	64,744	3,590	2,573	5,145	24,546	(11,673)	(65,691)	42,295	2,564,886	177,551	2,742,437
Comprehensive income																
Profit for the year		–	–	–	–	–	–	–	–	–	–	244,488	–	244,488	29,457	273,945
Other comprehensive income																
Currency translation differences		–	–	–	–	–	–	–	–	–	2,499	–	–	2,499	(1,008)	1,491
Changes in fair value of available- for-sale financial assets, net of tax		–	–	–	–	–	–	–	–	46,212	–	–	–	46,212	63	46,275
Total other comprehensive income		–	–	–	–	–	–	–	–	46,212	2,499	–	–	48,711	(945)	47,766
Total comprehensive income		–	–	–	–	–	–	–	–	46,212	2,499	244,488	–	293,199	28,512	321,711
Transactions with owners																
Contributions from minority shareholders of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	54,818	54,818
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	(69,779)	(69,779)
Deemed loss on disposal of subsidiaries		–	–	(130)	–	–	–	–	–	–	–	–	–	(130)	130	–
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	(864)	(864)
Final 2008 dividend declared		–	–	–	–	–	–	–	–	–	–	(434)	(42,295)	(42,729)	–	(42,729)
Proposed final 2009 dividend	13	–	–	–	–	–	–	–	–	–	–	(101,508)	101,508	–	–	–
Transfers from/(to) reserves	38(a)	–	–	–	24,020	–	(3,590)	(2,573)	319	–	–	(18,176)	–	–	–	–
Total transactions with owners		–	–	(130)	24,020	–	(3,590)	(2,573)	319	–	–	(120,118)	59,213	(42,859)	(15,695)	(58,554)
Balance at 31 December 2009		845,900	1,539,938*	(130)*	137,539*	64,744*	—*	—*	5,464*	70,758*	(9,174)*	58,679*	101,508	2,815,226	190,368	3,005,594

* These reserve accounts comprise the consolidated reserves of approximately RMB1,867,818,000 (2008: approximately RMB1,676,691,000).

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
Cash flows from operating activities			
Profit before income tax		**358,141**	90,407
Adjustments for:			
Finance costs	8	**15,040**	37,643
Share of losses of associates		**7,222**	82
Interest income	6, 7	**(42,856)**	(51,513)
Loss on disposal of items of property, plant and equipment, net	7	**25**	494
Gain on disposal of subsidiaries	6, 7	**(29,648)**	—
Depreciation	7	**101,201**	124,678
Amortisation of prepaid operating leases	7	**1,561**	3,595
Impairment of items of property, plant and equipment	7	**14,878**	—
Dividend income from unlisted investments	6, 7	**(5,471)**	(3,000)
Dividend income from listed investments	6, 7	**(1,600)**	(2,833)
Gain on disposal of available-for-sale financial assets	6, 7	**(6,606)**	(4,138)
(Gain)/loss on disposal of financial assets at fair value through profit or loss, net	6, 7	**(2,446)**	3,944
Provisions for impairment of trade receivables, net	7	**20,558**	27,969
Provisions for impairment of other receivables, net	7	**11,561**	4,603
Net (reversal)/charge for impairment losses of loans receivable	7	**(1,770)**	99
Net (reversal)/charge for impairment losses of bills discounted receivable	7	**(469)**	1,403
Reversal of provision for inventories, net	7	**(574)**	(4,472)
Recognition of government grants	6	**(5,909)**	(4,692)
Fair value (gain)/loss on financial assets at fair value through profit or loss, net	6, 7	**(4,708)**	7,467
Operating cash flows before working capital changes		**428,130**	231,736

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Increase in inventories		**(179,241)**	(70,662)
Decrease/(increase) in loans receivable		**34,060**	(145,522)
Increase in trade and bills receivables		**(98,746)**	(14,929)
Increase in bills discounted receivable		**(4,986)**	(74,633)
(Increase)/decrease in prepayments, deposits and other receivables		**(349,860)**	7,611
(Increase)/decrease in financial assets at fair value through profit or loss		**(17,344)**	31,510
Increase in provisions		**58,755**	7,128
Increase in trade and bills payables		**270,699**	393,333
Increase in customer deposits		**98,029**	66,986
Increase/(decrease) in other payables and accruals		**54,665**	(109,893)
Cash generated from operations		**294,161**	322,665
Interest received		**42,856**	51,513
Interest paid		**(15,040)**	(37,643)
Income tax paid		**(40,464)**	(39,268)
Net cash generated from operating activities		**281,513**	297,267

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
Cash flows from investing activities			
Dividends received from unlisted investments	6.7	**5,471**	3,000
Dividends received from listed investments	6.7	**1,600**	2,833
Purchases of property, plant and equipment	15	**(179,241)**	(121,622)
Proceeds from disposal of items of property, plant and equipment		**43,798**	34,451
Increase in prepaid operating leases	16	**(655)**	(71,708)
Purchases of available-for-sale financial assets		**(8,822)**	—
Proceeds from disposal of available-for-sale financial assets		**7,065**	26,529
Purchases of held-to-maturity financial assets		**(10,000)**	—
Proceeds from disposal of prepaid operating leases		**—**	10,925
Receipt of government grants	36	**5,835**	6,064
Disposal of subsidiaries	39	**51,216**	—
Decrease in mandatory reserve deposits with the People's Bank of China		**11,420**	18,273
Decrease/(increase) in time deposits with original maturity over three months		**3,000**	(1,773)
Decrease in pledged bank balances		**—**	4,472
Net cash used in investing activities		**(69,313)**	(88,556)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from financing activities			
Proceeds from interest-bearing bank borrowings		**304,500**	470,000
Repayments of interest-bearing bank borrowings		**(465,000)**	(742,900)
Contributions from minority shareholders of subsidiaries		**54,818**	—
Dividends paid to Company's shareholders		**(42,729)**	—
Dividends paid to minority shareholders		**(864)**	(12,671)
Net cash used in financing activities		**(149,275)**	(285,571)
Net increase/(decrease) in cash and cash equivalents		**62,925**	(76,860)
Exchange gain/(loss) on cash and cash equivalents		**1,491**	(41,510)
Cash and cash equivalents at beginning of year		**1,078,703**	1,197,073
Cash and cash equivalents at end of year		**1,143,119**	1,078,703
Analysis of balances of cash and cash equivalents			
Cash and bank balances	29	**1,143,119**	1,044,213
Cash and cash equivalents and pledged bank balances for issuing bills payable attributable to the assets of a disposal group held for sale	41	**—**	34,490
		1,143,119	1,078,703

The notes are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**774,891**	723,822
Prepaid operating leases	16	**67,774**	70,150
Interests in subsidiaries	18	**847,538**	845,174
Interests in associates	19	**11,696**	19,356
Available-for-sale financial assets	20	**126,865**	72,497
Deferred income tax assets	35	**52,238**	37,190
Total non-current assets		**1,881,002**	1,768,189
Current assets			
Inventories	22	**471,163**	327,902
Trade and bills receivables	23	**657,799**	691,685
Prepayments, deposits and other receivables	25	**369,390**	186,342
Due from subsidiaries	18	**112,744**	162,280
Loans to subsidiaries	18	**197,489**	196,000
Deposits placed with a subsidiary	18	**99,396**	220,300
Pledged bank balances	29	**188,920**	35,080
Cash and cash equivalents	29	**267,107**	265,910
Total current assets		**2,364,008**	2,085,499
Current liabilities			
Trade and bills payables	30	**993,108**	619,862
Other payables and accruals	31	**110,261**	175,008
Interest-bearing bank borrowings	34	**100,000**	80,000
Current income tax liabilities		**39,901**	3,769
Financial guarantee liabilities		**—**	62,858
Provisions	32	**21,210**	15,800
Total current liabilities		**1,264,480**	957,297
Net current assets		**1,099,528**	1,128,202
Total assets less current liabilities		**2,980,530**	2,896,391

STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Interest-bearing bank borrowings	34	—	144,000
Deferred income	36	**97,593**	96,648
Deferred income tax liabilities	35	**12,487**	4,332
Provisions	32	**62,630**	25,208
Total non-current liabilities		**172,710**	270,188
Net assets		**2,807,820**	2,626,203
Equity			
Share capital	37	**845,900**	845,900
Reserves	38(b)	**1,860,412**	1,738,008
Proposed final dividend	13	**101,508**	42,295
Total equity		**2,807,820**	2,626,203

The notes are an integral part of these consolidated financial statements.

Liu Dagong	**Qu Dawei**
Director	*Director*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

1. GENERAL INFORMATION

First Tractor Company Limited is a limited liability company established in the People's Republic of China (the "PRC"). The registered office of the Company is located at 154 Jian She Road, Luoyang, Henan Province, the PRC. The Company has its primary listing on the Stock Exchange of Hong Kong Limited.

The Company is engaged in investment holding, manufacture and sale of agricultural machinery. The principal activities of its subsidiaries are set out in Note 18. 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:

- manufacture and sale of agricultural machinery
- manufacture and sale of construction machinery
- manufacture and sale of diesel engines, fuel injection pumps and fuel jets

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

The consolidated financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 9 April 2010.

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 consolidation financial statements of the Company 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

2.2 Impact of new and amended standards adopted

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

i) HKFRS 7 'Financial Instruments - Disclosures' (amendment) - effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

ii) HKAS 1 (revised). 'Presentation of financial statements' - effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Impact of new and amended standards adopted *(continued)*

(a) New and amended standards adopted by the Group *(continued)*

iii) In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of HKAS 23 Borrowing costs (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Group has capitalised borrowing costs with respect to construction in progress (see Note 8).

iv) HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. However, such restatement in note disclosure does not have any impact on the statement of financial position.

(b) Amended standard effective in 2009 but not relevant

The following revised HKFRS does not have a impact on the Group's financial statements:

i) IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Impact of new and amended standards adopted *(continued)*

(c) Amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

i) HK(IFRIC) 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

ii) HKAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Impact of new and amended standards adopted *(continued)*

(c) Amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

iii) HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the noncontrolling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

iv) HKAS 38 (amendment), 'Intangible Assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in April/May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

v) HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Impact of new and amended standards adopted *(continued)*

(c) Amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

vi) HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. It is not expected to have a material impact on the Group's or Company's financial statements.

(vii) HKFRS 2 (amendments), 'group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 - group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Consolidation

(a) 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. 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses 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 provision for impairment losses (Note 2.12). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Consolidation *(continued)*

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) 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 and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.12 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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.

In the Company's statement of financial position the investments in associated companies are stated at cost less provision for impairment losses (Note 2.12). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Consolidation *(continued)*

(d) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 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.

2.5 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 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains - net.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Foreign currency translation *(continued)*

(b) Transactions and balances *(continued)*

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 equity.

Translation differences on non-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 equities classified as available for sale are included in the available for sale reserve in equity.

(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 as a separate component of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Foreign currency translation *(continued)*

(c) Group companies *(continued)*

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 shareholders' equity. 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.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.8 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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

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 written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 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.

2.10 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.11 Research and development costs

All research costs are charged to the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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 an impairment 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 dividend exceeds the total comprehensive income of the subsidiary or associate 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets

2.13.1 Classification

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. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) 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.

(c) 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 income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

2.13.1 Classification *(continued)*

(d) 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.

2.13.2 Recognition and measurement

Regular 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 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 (losses)/gains - net' 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 when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

2.13.2 Recognition and measurement *(continued)*

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 statement as 'gains and losses from investment securities'.

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

2.14 Offsetting financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 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.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payments;

- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

- The disappearance of an active market for that financial asset because of financial difficulties; or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Impairment of financial assets *(continued)*

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include: *(continued)*

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

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 asset's 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 financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Impairment of financial assets *(continued)*

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on 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 when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the 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.

2.17 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.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.18 Trade and other payables

Trade and other 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

2.20 Leases

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Leases *(continued)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

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.

2.21 Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

2.22 Customer deposits

Customer deposits 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

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

2.25 Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 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.

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.

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.

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

Deferred income tax assets 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 taxes 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.

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 the income statement over the expected useful life of the relevant asset by equal annual installments.

2.28 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) from the sale of goods, 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) rental income on a time proportion basis over the lease terms;

(c) interest income, 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; and

(d) dividend income, when the shareholders' right to receive payment has been established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.29 Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

Termination benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.30 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. When funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalistation rate of 7.41% has been applied to the expenditure on the individual assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.31 Dividend

Final dividend proposed by the directors is 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 this dividend has been approved by the shareholders and declared, it is recognised as a liability.

2.32 Comparatives

Certain comparative figures have been reclassified in order to conform to 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 currency 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 introduces conservative strategies on 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.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk - Foreign exchange risk *(continued)*

The business of the Group is principally located in Mainland China. While most of the transactions are conducted in RMB, the Group does not have significant exposure to foreign currency risk. As at 31 December 2009, the Group had short term deposits denominated in United States dollars and Hong Kong dollars of approximately RMB81,428,000 (2008: approximately RMB7,405,000) and approximately RMB30,319,000 (2008: approximately RMB35,395,000), respectively. All the bank borrowings of the Group are denominated in RMB. The Group does not use derivative financial instruments to hedge its foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar ("HK$") and United States dollar ("US$") exchange rates, 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	
	HK$ and US$ Increase/ (decrease)	**Profit before income tax Increase/ (decrease)**
	%	*RMB'000*
2009		
If Renminbi strengthens against HK$ and US$	**(5)**	**(5,587)**
If Renminbi weakens against HK$ and US$	**5**	**5,587**
2008		
If Renminbi strengthens against HK$ and US$	(5)	(2,140)
If Renminbi weakens against HK$ and US$	5	2,140

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Market risk - Interest rate risk

Interest rate risk is the risk of fluctuation in the fair value of future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, 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 loans receivable, customer deposits and debt obligations.

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

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 decrease**
	%	*RMB'000*
2009	+1	483
2008	+1	860

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Market risk - Interest rate risk *(continued)*

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

	2009 Rate %	2008 Rate %
Assets		
Cash and cash equivalents	**0.36 - 1.71**	0.99 - 1.89
Loans receivable	**4.43 - 7.25**	5.29 - 9.71
Liabilities		
Customer deposits	**1.71 - 4.50**	0.36 - 4.14
Interest-bearing bank borrowings	**4.85 - 6.90**	4.86 - 9.71

(c) Market risk - 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 FTGF.

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 considered that the credit risk is significantly reduced.

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Market risk - Credit risk *(continued)*

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

The carrying amount of the Group's financial assets which comprise pledged bank balances, cash and cash equivalents, available-for-sale investments, financial assets at fair value through profit or loss, amounts due from associates and other receivables included in the statement of financial position, represents the Group's maximum exposure to credit risk in relation to its financial assets, without taking into account the fair value of any collateral.

The Company is also exposed to credit risk through the granting of financial guarantees in connection with bank loans and other banking facilities granted to its subsidiaries, the impact of these financial guarantee liabilities has been provided for in the Company's statement of financial position during the current and prior years.

(d) Market risk - Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings, bills payable and other available sources of financing.

To monitor the liquidity risk arising from the Group's financial operations, FTGF has established policies and procedures to monitor and control its liquidity position. The Asset and Liability Management Committee of FTGF is responsible for properly managing the liquidity structure of its assets, liabilities and commitments so as to achieve balanced cash flows and to meet all funding obligations.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) Market risk - Liquidity risk *(continued)*

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

2009

	Within one year or	In the second year	In the third to fifth years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	**145,505**	**—**	**—**	**145,505**
Trade and bills payables	**1,670,441**	**—**	**—**	**1,670,441**
Other payables	**221,660**	**—**	**—**	**221,660**
Customer deposits	**296,246**	**—**	**—**	**296,246**
	2,333,852	**—**	**—**	**2,333,852**

2008

	Within one year or	In the second year	In the third to fifth years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	177,289	70,953	94,373	342,615
Trade and bills payables	1,448,998	—	—	1,448,998
Other payables	243,242	—	—	243,242
Customer deposits	198,217	—	—	198,217
	2,067,746	70,953	94,373	2,233,072

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) Market risk - Liquidity risk *(continued)*

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows: *(continued)*

Company

2009

	Within one year or	In the second year	In the third to fifth years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	**101,735**	—	—	**101,735**
Trade and bills payables	**993,108**	—	—	**993,108**
Other payables	**82,955**	—	—	**82,955**
	1,177,798	—	—	**1,177,798**

2008

	Within one year or	In the second year	In the third to fifth years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	84,234	70,953	94,373	249,560
Trade and bills payables	619,862	—	—	619,862
Other payables	143,467	—	—	143,467
Financial guarantee liabilities	62,858	—	—	62,858
	910,421	70,953	94,373	1,075,747

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 end 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals and customer deposits, 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	
	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**143,000**	311,000
Trade and bills payables	**1,670,441**	1,448,998
Other payables and accruals	**420,194**	439,992
Customer deposits	**296,246**	198,217
Less: Cash and cash equivalents and pledged bank balances	**(1,209,378)**	(1,124,892)
Net debt	**1,320,503**	1,273,315
Equity attributable to equity holders of the Company	**2,815,226**	2,564,886
Capital and net debt	**4,135,729**	3,838,201
Gearing ratio	**32%**	33%

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value measurements, by level of the following fair value measurement hierarchy:

- 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 assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Equity investments at fair value through profit or loss				
— Trading securities	28,942	—	—	28,942
Held-to-maturity financial assets	10,140	—	—	10,140
Available- for-sale financial assets				
— Equity securities	108,679	—	59,797	168,476
Total assets	147,761	—	59,797	207,558

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 includes in level 1 comprise primarily listed equity investments classified as trading securities or available-for-sale.

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 where it is available and reply as little as possible on entity specific estimates. If all significant inputs required to fair value an 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 includes:

— 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.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Available-for-sale financial assets
	RMB'000
Opening balance	58,802
Addition	1,454
Disposal	(459)
Closing balance	59,797

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)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was approximately RMB52,990,000 (2008: approximately RMB52,990,000). More details are given in Note 17.

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.

Impairment of trade receivables

The policy for impairment of 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.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

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 centres, the number of units of products and components already sold which may require repairs and maintenance, and the miscellaneous expenditures which may be incurred.

Provision for early retirement benefits

The benefits of the 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.

Income tax

The Group is subject to income taxes in various regions within Mainland China. As a result of the fact that 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 realise.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses and deductible temporary difference 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. Further details of deferred income tax assets are disclosed in Note 35 to the financial statements.

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 values decline, 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 2009, impairment losses of approximately RMB2,123,000 (2008: approximately RMB2,123,000) have been recognised for available-for-sale financial assets. The carrying amount of available-for-sale financial assets at 31 December 2009 was approximately RMB168,476,000 (2008: approximately RMB106,959,000) (Note 20).

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 Mainland China, and over 90% of the Group's assets are located in Mainland China.

5. SEGMENT INFORMATION *(continued)*

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 manufacture and sale of agricultural machinery, including tractors, harvesters, and related parts and components;

(b) the "construction machinery" segment engages in the manufacture and sale of construction and road machinery;

(c) the "financial operations' segment engages in the provision of loans, bills discounting and deposit-taking services; and

(d) the "diesel engines and fuel jets" segment engages in the manufacture and sale of diesel engines and fuel injection pumps.

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

Segment results are presented as profit before income tax. Other information of each segment is also disclosed, which include depreciation and amortisation, other expenses, corporate administrative expenses, finance costs, net fair value gain on financial assets at fair value through profit or loss, net gain on disposal of financial assets at fair value through profit or loss, gain on disposal of subsidiaries, share of losses of associates, and income tax, etc. This is the information and reported to the management, together with other reportable data, serves to provide better information to the management, and investors will assess annual segment results from this information.

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2009.

	Agricultural machinery *RMB'000*	Construction machinery *RMB'000*	Financial operations *RMB'000*	Diesel engines and fuel jets *RMB'000*	Unallocated and eliminations *RMB'000*	Total *RMB'000*
Income statement						
Revenue:						
Sales to external customers	6,811,536	922,508	33,254	1,203,963	—	8,971,261
Intersegment sales *(Note)*	443,122	40,760	14,801	629,399	(1,128,082)	—
	7,254,658	963,268	48,055	1,833,362	(1,128,082)	8,971,261
Interest, dividend and investment income					26,152	
Gain on disposal of subsidiaries					29,648	
Unallocated expenses, net					(10,323)	
Finance costs					(15,040)	
Share of losses of associates					(7,222)	
Profit before income tax	196,507	(68,170)	33,376	173,213	23,215	358,141
Income tax expense						(84,196)
Profit for the year						273,945

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2009. *(Continued)*

	Agricultural machinery	Construction machinery	Financial operations	Diesel engines and fuel jets	Unallocated and eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other segment information:						
Capital expenditure	**154,773**	**3,650**	**39**	**21,434**	**—**	**179,896**
Depreciation	**51,805**	**15,979**	**422**	**32,995**	**—**	**101,201**
Amortisation of prepaid operating leases	**1,306**	**255**	**—**	**—**	**—**	**1,561**
Provision for warranties	**4,247**	**1,235**	**—**	**27,824**	**—**	**33,306**
Impairment of property, plant and equipment	**12,099**	**2,779**	**—**	**—**	**—**	**14,878**
Provision for impairment of trade receivables, net	**15,615**	**168**	**—**	**4,775**	**—**	**20,558**
Provision for/(reversal of) impairment of other receivables, net	**6,272**	**(584)**	**2,538**	**3,335**	**—**	**11,561**
Provision for/(reversal of) impairment of inventories, net	**6,891**	**(7,677)**	**—**	**212**	**—**	**(574)**
Reversal of impairment of bills discounted receivable, net	**—**	**—**	**(469)**	**—**	**—**	**(469)**
Reversal of impairment of loans receivable, net	**—**	**—**	**(1,770)**	**—**	**—**	**(1,770)**

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2009. *(Continued)*

	Agricultural machinery	Construction machinery	Financial operations	Diesel engines and fuel jets	Unallocated and eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Statement of financial position						
Assets						
Segment assets	**3,093,103**	**738,789**	**840,060**	**944,490**	**(217,540)**	**5,398,902**
Interests in associates						**11,696**
Unallocated assets						**432,611**
Total consolidated assets						**5,843,209**
Liabilities						
Segment liabilities	**1,497,521**	**443,343**	**308,047**	**433,739**	**(217,540)**	**2,465,110**
Unallocated liabilities						**372,505**
Total consolidated liabilities						**2,837,615**

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

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2008.

	Agricultural machinery	Construction machinery	Financial operations	Diesel engines and fuel jets	Unallocated and eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Income statement						
Revenue:						
Sales to external customers	5,572,154	1,542,220	42,138	777,209	—	7,933,721
Intersegment sales *(Note)*	579,472	133,429	18,989	419,725	(1,151,615)	—
	6,151,626	1,675,649	61,127	1,196,934	(1,151,615)	7,933,721
Interest, dividend and investment income					14,879	
Unallocated expenses, net					(18,776)	
Finance costs					(37,643)	
Share of losses of associates					(82)	
Profit before income tax	83,219	(83,177)	40,133	91,854	(41,622)	90,407
Income tax expense						(9,528)
Profit for the year						80,879

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2008. *(Continued)*

	Agricultural machinery *RMB'000*	Construction machinery *RMB'000*	Financial operations *RMB'000*	Diesel engines and fuel jets *RMB'000*	Unallocated and eliminations *RMB'000*	Total *RMB'000*
Other segment information:						
Capital expenditure						
Capital expenditure	158,188	26,470	214	8,458	—	193,330
Depreciation	73,146	24,510	598	26,424	—	124,678
Amortisation of prepaid operating leases	68	3,527	—	—	—	3,595
Provision for warranties	7,640	4,086	—	20,705	—	32,431
Provision for impairment of trade receivables, net	15,286	10,735	—	1,948	—	27,969
Provision for impairment of other receivables, net	496	3,938	34	135	—	4,603
Reversal of impairment of inventories, net	(758)	(2,653)	—	(1,061)	—	(4,472)
Provision for impairment of bills discounted receivable, net	—	—	1,403	—	—	1,403
Provision for impairment of loans receivable, net	—	—	99	—	—	99

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain information about assets, liabilities and expenditures for the Group's business segments for the year ended 31 December 2008. *(Continued)*

	Agricultural machinery	Construction machinery	Financial operations	Diesel engines and fuel jets	Unallocated and eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Statement of financial position						
Assets						
Segment assets	3,231,281	1,101,957	1,179,131	826,809	(1,092,861)	5,246,317
Interests in associates						18,918
Unallocated assets						270,142
Total consolidated assets						5,535,377
Liabilities						
Segment liabilities	1,362,862	955,104	618,399	419,066	(1,092,861)	2,262,570
Unallocated liabilities						530,370
Total consolidated liabilities						2,792,940

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

5. SEGMENT INFORMATION *(continued)*

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

	2009	2008
	RMB'000	*RMB'000*
Earnings before interest, tax, depreciation and amortisation	**437,688**	260,302
Depreciation	**(101,201)**	(124,678)
Amortisation for prepaid operating leases	**(1,561)**	(3,595)
Corporate expenses, net	**(10,323)**	(18,776)
Operating profit	**324,603**	113,253
Interest, dividend and investment income	**26,152**	14,879
Gain on disposal of subsidiaries	**29,648**	—
Finance costs	**(15,040)**	(37,643)
Share of losses of associates	**(7,222)**	(82)
Profit before income tax	**358,141**	90,407

Assets are attributed to the segments based on the operations of each segment and the location of the assets. The Group's equity 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.

5. SEGMENT INFORMATION *(continued)*

Segment assets are summarised as below:

	2009	2008
	RMB'000	*RMB'000*
Segment assets as allocated by business segments	**5,398,902**	5,246,317
Unallocated assets:		
Goodwill	**52,990**	52,990
Available-for-sale financial assets	**168,476**	106,959
Deferred tax assets	**59,243**	49,107
Financial assets at fair value through profit or loss	**28,942**	4,444
Interests in associates	**11,696**	18,918
Others	**122,960**	56,642
Total assets as per consolidated statement of financial position	**5,843,209**	5,535,377

Liabilities are attributed to the segments based on the operations of each segment. The Group's interest-bearing 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:

	2009	2008
	RMB'000	*RMB'000*
Segment liabilities as allocated by business segments	**2,465,110**	2,262,570
Unallocated liabilities:		
Interest-bearing borrowings	**143,000**	311,000
Deferred tax liabilities	**13,109**	4,332
Provisions	**124,569**	63,665
Others	**91,827**	151,373
Total liabilities as per consolidated statement of financial position	**2,837,615**	2,792,940

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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 is as follows:

	Notes	2009 RMB'000	2008 RMB'000
Revenue			
Sales of goods		**8,938,007**	7,891,583
Interest income from financial operations	7	**33,254**	42,138
		8,971,261	7,933,721
Other income			
Bank interest income	7	**9,602**	9,375
Dividend income from listed investments	7	**1,600**	2,833
Dividend income from unlisted investments	7	**5,471**	3,000
Government grants	36	**5,909**	4,692
Value added tax refund		**—**	2,588
Others		**10,875**	13,505
		33,457	35,993
Gains			
Gain on disposal of subsidiaries	7, 39	**29,648**	—
Fair value gains on financial assets at fair value through profit or loss, net	7	**4,708**	—
Gain on disposals of financial assets at fair value through profit or loss, net	7	**2,446**	—
Gain on disposals of available-for-sale financial assets	7	**6,606**	4,138
		43,408	4,138
		76,865	40,131

7. PROFIT BEFORE INCOME TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**7,703,072**	7,108,592
Depreciation of property, plant and equipment	15	**101,201**	124,678
Impairment of property, plant and equipment	15	**14,878**	—
Amortisation of prepaid operating leases	16	**1,561**	3,595
Employee benefits expenses (excluding directors' and supervisors' remuneration - Note 9):			
Wages and salaries		**474,941**	389,503
Pension scheme contributions**		**79,758**	32,071
Provision for early retirement benefits	32	**81,261**	40,957
		635,960	462,531
Minimum lease payments under operating leases:			
Land and buildings		**23,344**	35,428
Plant and machinery		**125**	572
		23,469	36,000

7. PROFIT BEFORE INCOME TAX *(continued)*

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

	Notes	**2009** **RMB'000**	2008 RMB'000
Research and development costs		**284,564**	155,869
Auditors' remuneration		**6,065**	6,380
Provision for impairment of trade and bills receivables, net *	23	**20,558**	27,969
Provision for impairment of other receivables, net *	25	**11,561**	4,603
Provision for warranties	32	**33,306**	32,431
(Reversal of)/provision for impairment of loans receivable, net *	21	**(1,770)**	99
(Reversal of)/provision for impairment of bills discounted receivable, net *	24	**(469)**	1,403
Interest expense on financial operations		**3,161**	4,924
Reversal of impairment of inventories, net		**(574)**	(4,472)
Loss on disposal of property, plant and equipment, net *		**25**	494
Fair value (gain)/loss on financial assets at fair value through profit or loss, net	6	**(4,708)**	7,467
(Gain)/loss on disposal of financial assets at fair value through profit or loss, net	6	**(2,446)**	3,944
Gain on disposal of available-for-sale financial assets	6	**(6,606)**	(4,138)
Gain on disposal of subsidiaries	6, 39	**(29,648)**	—
Foreign exchange differences, net *		**249**	3,502
Dividend income from unlisted investments	6	**(5,471)**	(3,000)
Dividend income from listed investments	6	**(1,600)**	(2,833)
Bank interest income	6	**(9,602)**	(9,375)
Interest income from financial operations	6	**(33,254)**	(42,138)
Gross rental income		**(6,108)**	(7,821)

* These expenses are included in the consolidated income statement under "Other expenses"

** At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

8. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within 5 years	**15,040**	49,013
Less: Interest capitalised	**—**	(11,370)
Total finance costs	**15,040**	37,643

9. REMUNRATION 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:

	2009	2008
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,108**	900
Performance related bonuses	**235**	453
Pension scheme contributions	**268**	269
	1,611	1,622
	1,611	1,622

9. REMUNRATION OF DIRECTORS AND SUPERVISORS *(continued)*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2009					
Executive and non-executive directors:					
Mr. Liu Yongle *(a)*	—	40	—	8	48
Mr. Qu Da Wei *(a)*	—	60	—	12	72
Mr. Li Xibin *(a)*	—	40	—	8	48
Ms. Dong Jianhong	—	76	18	19	113
Mr. Liu Dagong	—	96	18	23	137
Mr. Liu Wenying *(b)*	—	36	18	11	65
Mr. Zhao Yanshui	—	76	18	19	113
Mr. Yan Linjiao	—	76	18	19	113
Mr. Li Tengjiao *(b)*	—	36	18	11	65
Mr. Shao Haichen	—	76	18	19	113
Mr. Li Youji *(b)*	—	36	18	11	65
Mr. Liu Shuangcheng *(b)*	—	36	18	11	65
Mr. Zhao Fei *(b)*	—	36	18	11	65
	—	720	180	182	1,082

9. REMUNRATION OF DIRECTORS AND SUPERVISORS *(continued)*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Independent non-executive directors:					
Mr. Hang Xianguo *(a)*	—	30	—	6	36
Mr. Chen Zhi *(c)*	—	10	—	2	12
Mr. Chan Sau Shan, Gary	—	30	—	6	36
Mr. Luo Xiwen	—	30	—	6	36
Mr. Lu Zhongmin *(b)*	—	—	—	—	—
	—	100	—	20	120
Supervisors:					
Ms. Yi Liwen *(a)*	—	30	—	6	36
Mr. Wang Yong *(a)*	—	24	—	5	29
Mr. Huang Ping *(a)*	—	24	—	5	29
Mr. Xu Weilin *(b)*	—	22	11	6	39
Mr. Shao Jianxin	—	52	11	12	75
Mr. Zhao Shengyao	—	52	11	12	75
Mr. Kong Lingfu *(b)*	—	22	11	6	39
Mr. Zheng Luyu	—	62	11	14	87
	—	288	55	66	409
	—	1,108	235	268	1,611

(a) Appointed on 1 July 2009

(b) Resigned on 1 July 2009

(c) Resigned on 21 August 2009

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

9. REMUNRATION OF DIRECTORS AND SUPERVISORS *(continued)*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Executive and non-executive directors:					
Ms. Dong Jianhong *(d)*	—	48	23	14	85
Mr. Liu Dagong	—	69	35	21	125
Mr. Liu Wenying	—	69	35	21	125
Mr. Zhao Yanshui	—	69	35	21	125
Mr. Yan Linjiao	—	69	35	21	125
Mr. Li Tengjiao	—	69	35	21	125
Mr. Shao Haichen	—	69	35	21	125
Mr. Zhang Jing *(e)*	—	21	10	6	37
Mr. Li Youji	—	69	35	21	125
Mr. Liu Shuangcheng	—	69	35	21	125
Mr. Zhao Fei	—	69	35	21	125
	—	690	348	209	1,247

9. REMUNRATION OF DIRECTORS AND SUPERVISORS *(continued)*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Independent non-executive directors:					
Mr. Chen Zhi	—	—	—	—	—
Mr. Chan Sau Shan, Gary	—	—	—	—	—
Mr. Luo Xiwen	—	—	—	—	—
Mr. Lu Zhongmin	—	—	—	—	—
	—	—	—	—	—
Supervisors:					
Mr. Xu Weilin	—	42	21	12	75
Mr. Shao Jianxin	—	42	21	12	75
Mr. Zhao Shengyao	—	42	21	12	75
Mr. Kong Lingfu	—	42	21	12	75
Mr. Zheng Luyu	—	42	21	12	75
	—	210	105	60	375
	—	900	453	269	1,622

(d) Appointed on 28 April 2008

(e) Resigned on 28 April 2008

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2008: five) non-director and non-supervisory employees, details of whose remuneration are as follows:

	2009	2008
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,592**	1,520
Performance related bonuses	**—**	—
Pension scheme contributions	**318**	304
	1,910	1,824

None of the highest paid employees (2008: Nil) for the year are directors nor supervisors of the Company, details of whose remuneration are set out in Note 9 above.

The remuneration of the five (2008: five) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

11. INCOME TAX EXPENSE

	2009	2008
	RMB'000	*RMB'000*
Current - PRC corporate income tax		
Charge for the year	**94,326**	33,642
Under/(over)-provision in prior years	**6**	(1,757)
Deferred tax *(Note 35)*	**(10,136)**	(22,357)
Total income tax charge for the year	**84,196**	9,528

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25% (2008: 15% to 25%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

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 2009 and 2008.

Profits tax of the subsidiaries operating outside Mainland China 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 (2008: Nil).

11. INCOME TAX EXPENSE *(continued)*

A reconciliation of the tax expense applicable to profit before 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			
	2009		2008	
	RMB'000	**%**	*RMB'000*	%
Profit before income tax	**358,141**		90,407	
Tax at the PRC statutory tax rate	**89,536**	**25**	22,602	25
Entities subject to lower income tax rates for specific provinces or enacted by local authorities	**(36,271)**	**(10)**	(20,015)	(22)
Effect on deferred tax due to the change in PRC statutory tax rate	**—**	**—**	8,630	10
Adjustments in respect of current tax of previous periods	**6**	**—**	(1,757)	(2)
Profits and losses attributable to associates	**1,806**	**1**	20	—
Income not subject to tax	**(21,326)**	**(6)**	(42,642)	(47)
Expenses not deductible to tax	**33,134**	**9**	30,998	34
Tax losses utilised	**(4,610)**	**(1)**	(7,645)	(8)
Unrecognised tax losses	**8,249**	**2**	33,324	37
Adjustments in respect of current tax for investment loss recognised in prior years	**11,972**	**3**	(13,987)	(15)
Others	**1,700**	**1**	—	—
Tax charge at the Group's effective rate	**84,196**	**24**	9,528	11

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2009 which has been dealt with in the financial statements of the Company amounted to approximately RMB178,134,000 (2008: approximately RMB82,054,000) (Note 38(b)).

13. DIVIDEND

	2009	2008
	RMB'000	*RMB'000*
Proposed final		
RMB12 cents (2008: RMB5 cents) per ordinary share	**101,508**	42,295

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 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 EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately RMB244,488,000 (2008: approximately RMB68,505,000) and the weighted average of 845,900,000 (2008: 845,900,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2009 and 2008 have not been disclosed as no diluting events existed during either year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	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 2008					
Cost	1,015,230	1,586,769	56,558	235,043	2,893,600
Accumulated depreciation and impairment	(573,093)	(1,029,656)	(26,821)	(7,575)	(1,637,145)
Net book amount	442,137	557,113	29,737	227,468	1,256,455
For the year ended 31 December 2008					
Opening net book amount	442,137	557,113	29,737	227,468	1,256,455
Additions	839	27,171	8,049	85,563	121,622
Transfers	28,916	189,397	2,935	(221,248)	—
Disposals	(11,541)	(8,574)	(8,419)	(6,411)	(34,945)
Assets included in a disposal group *(Note 41)*	(33,256)	(12,521)	(7,156)	(2,284)	(55,217)
Depreciation charged for the year *(Note 7)*	(27,557)	(93,978)	(3,143)	—	(124,678)
Closing net book amount	399,538	658,608	22,003	83,088	1,163,237
At 31 December 2008					
Cost	909,192	1,711,711	44,703	90,663	2,756,269
Accumulated depreciation and impairment	(509,654)	(1,053,103)	(22,700)	(7,575)	(1,593,032)
Net book amount	399,538	658,608	22,003	83,088	1,163,237

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2009					
Opening net book amount	399,538	658,608	22,003	83,088	1,163,237
Classified as assets included in a disposal group at the beginning of the year *(Note 41)*	33,256	12,521	7,156	2,284	55,217
Additions	48,606	7,270	4,851	118,514	179,241
Transfers	2,121	64,280	—	(66,401)	—
Disposals	(494)	(41,185)	(2,144)	—	(43,823)
Disposal of subsidiaries *(Note 39)*	(32,445)	(26,610)	(115)	(2,218)	(61,388)
Depreciation charged for the year *(Note 7)*	(25,526)	(71,696)	(3,979)	—	(101,201)
Impairment charge *(Note 7)*	(3,208)	(10,140)	(322)	(1,208)	(14,878)
Closing net book amount	421,848	593,048	27,450	134,059	1,176,405
At 31 December 2009					
Cost	1,042,831	1,681,264	54,086	142,842	2,921,023
Accumulated depreciation and impairment	(620,983)	(1,088,216)	(26,636)	(8,783)	(1,744,618)
Net book amount	421,848	593,048	27,450	134,059	1,176,405

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 2008					
Cost	611,363	914,029	19,173	213,076	1,757,641
Accumulated depreciation and impairment	(397,975)	(624,881)	(8,763)	(7,182)	(1,038,801)
Net book amount	213,388	289,148	10,410	205,894	718,840
For the year ended 31 December 2008					
Opening net book amount	213,388	289,148	10,410	205,894	718,840
Additions	—	10,324	743	76,153	87,220
Transfers	26,837	178,345	1,808	(206,990)	—
Disposals	(1,949)	(2,302)	(2,741)	(4,463)	(11,455)
Depreciation charged for the year	(15,089)	(54,217)	(1,477)	—	(70,783)
Closing net book amount	223,187	421,298	8,743	70,594	723,822
At 31 December 2008					
Cost	631,616	1,086,001	16,116	77,776	1,811,509
Accumulated depreciation and impairment	(408,429)	(664,703)	(7,373)	(7,182)	(1,087,687)
Net book amount	223,187	421,298	8,743	70,594	723,822

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company *(continued)*

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2009					
Opening net book amount	223,187	421,298	8,743	70,594	723,822
Additions	1,123	—	—	116,692	117,815
Transfers	2,121	55,343	—	(57,464)	—
Disposals	(494)	(4,094)	(247)	—	(4,835)
Depreciation charged for the year	(15,022)	(33,434)	(1,356)	—	(49,812)
Impairment charge	(3,206)	(7,414)	(282)	(1,197)	(12,099)
Closing net book amount	207,709	431,699	6,858	128,625	774,891
At 31 December 2009					
Cost	633,451	1,126,131	15,057	137,004	1,911,643
Accumulated depreciation and impairment	(425,742)	(694,432)	(8,199)	(8,379)	(1,136,752)
Net book amount	207,709	431,699	6,858	128,625	774,891

Certain of the Group's plant and machinery are leased to the Holding and third parties under operating leases, further summary details of which are included in Note 44(a) to the consolidated financial statements.

All of the Group's and Company's buildings are located in the PRC.

At 31 December 2009, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB41,799,000 (2008: approximately RMB62,308,000), together with the prepaid operating leases of the Holding, were pledged to secure certain bank borrowings granted to the Group. The Company has not pledged its buildings and machinery in the current year (2008: approximately RMB29,178,000) (Note 34(i)).

16. PREPAID OPERATING LEASES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net book amount at 1 January	**79,158**	30,374	**70,150**	1,955
Classified as assets included in a disposal group at the beginning of the year *(Note 41)*	**8,404**	—	**—**	—
Additions	**655**	71,708	**—**	68,263
Disposals	**(1,626)**	(10,925)	**(1,232)**	—
Disposal of subsidiaries *(Note 39)*	**(8,341)**	—	**—**	—
Assets included in a disposal group *(Note 41)*	**—**	(8,404)	**—**	—
Amortisation charged for the year *(Note 7)*	**(1,561)**	(3,595)	**(1,144)**	(68)
Net book amount at 31 December	**76,689**	79,158	**67,774**	70,150

The prepaid operating leases were of medium term leases and are situated in the PRC.

At 31 December 2009, certain of the Group's prepaid operating leases with an aggregate net carrying value of approximately RMB6,436,000 (2008: approximately RMB8,404,000), together with prepaid operating leases of a minority shareholder, were pledged to secure bank borrowings granted to the Group (Note 34(iii) and (iv)).

17. GOODWILL

	Group
	RMB'000
At 1 January 2008	
Cost	52,990
Accumulated impairment	—
Net book amount	52,990
Cost at 1 January 2008 and 31 December 2008, net of accumulated impairment	52,990
At 31 December 2008	
Cost	52,990
Accumulated impairment	—
Net book amount	52,990
Cost at 1 January 2009 and 31 December 2009, net of accumulated impairment	52,990
At 31 December 2009	
Cost	52,990
Accumulated impairment	—
Net book amount	52,990

17. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit (the "CGU") of diesel engines and fuel jets, which is a reportable segment, for impairment testing. The recoverable amount of this CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projection is 8% (2008: 8%), which is based on the weighted average cost of capital. The growth rate used for the five-year period is based on prudent estimation by management estimated to be 5% (2008: 5%). The key assumptions are as follows:

(a) the expected growth demand from the market;

(b) the general growth rate of approximately 10% for the agricultural and machinery industry; and

(c) the production capacity of the CGUs.

The values assigned to key assumptions are consistent with external information sources.

The carrying amount of goodwill allocated to the CGU of diesel engines and fuel jets is approximately RMB52,990,000 in current and prior years.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	*RMB'000*
Unlisted investments, at cost	**878,539**	813,317
Financial guarantees granted to subsidiaries	**—**	130,650
	878,539	943,967
Impairment #	**(31,001)**	(98,793)
	847,538	845,174

\# An impairment was recognised for certain unlisted investments with a carrying amount of approximately RMB31,929,000 (before deducting the impairment loss) (2008: approximately RMB130,579,000) because these unlisted investments have recorded operating losses.

18. INTERESTS IN SUBSIDIARIES *(continued)*

The movements in impairment of interests in subsidiaries are as follows:

	Company	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**98,793**	123,295
(Reversal of)/provision for impairment	**(67,792)**	56,156
Amount written off on disposal	**—**	(80,658)
At 31 December	**31,001**	98,793

The loans to subsidiaries of approximately RMB197,489,000 (2008: approximately RMB196,000,000) 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 4.05% to 6.00% (2008: 4.86% to 7.47%) per annum, and are repayable within one year.

The amounts due from subsidiaries of approximately RMB112,744,000 (2008: approximately RMB162,280,000) are unsecured and interest-free, and are repayable on demand or within one year.

Deposits placed with a subsidiary are deposits of approximately RMB99,396,000 (2008: approximately RMB220,300,000) placed by the Company in the subsidiary which is a financial institution. Except for a one-year time deposit of approximately RMB10,000,000 (2008: approximately RMB10,000,000) placed therein which bears interest at a rate of 2.25% (2008: 4.14%) per annum, all deposits placed therein bear interest at a rate of 0.36% (2008: 0.72%) per annum and are repayable on demand.

The trading balances with subsidiaries are included in Notes 23, 30 and 31 to the consolidated financial statements.

The carrying amounts of these balances with subsidiaries approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES *(continued)*

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	
Brilliance China Machinery Holdings Limited ("BCM") 華晨中國機械控股有限公司	Bermuda	US$12,000	90.1	—	Investment holding
Yituo (Luoang) Construction Machinery Co., Ltd. ("YCMC") + 一拖(洛陽)工程機械有限公司	PRC	US$17,900,000	—	95	Manufacture and sale of construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC") + 一拖(洛陽)建築機械有限公司	PRC	US$9,980,000	—	95	Manufacture and sale of road rollers and road construction machinery
Luoyang Changlun Agricultural Machinery Company Limited* # 洛陽長侖農業機械有限公司	PRC	RMB500,000	99	—	Trading of tractors

18. INTERESTS IN SUBSIDIARIES *(continued)*

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	
Yituo (Luoyang) Harvester Co., Ltd.* # 一拖（洛陽）收穫機械有限公司	PRC	RMB49,295,000	—	93.9	Manufacture and sale of agricultural harvesting machinery
Luoyang Changhong High Technology Trading Company Limited* # 洛陽長宏工貿有限公司	PRC	RMB3,000,000	91.7	8.2	Trading of tractors
China YTO Group Finance Company Limited ("FTGF")* # 中國一拖集團財務有限責任公司	PRC	RMB500,000,000	87.8	9.1	Provision of financial services
Yituo (Luoyang) Building Construction Machinery Company Limited ("YLBC")* # - *(Note (i))* 一拖(洛陽)建工機械有限公司	PRC	RMB18,303,000	35	—	Manufacture and sale of road rollers
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* # - *(Note (ii))* 一拖(洛陽)神通工程機械有限公司	PRC	RMB13,000,000	50	—	Manufacture and sale of construction machinery
Yituo (Luoyang) Construction Machinery Trading Co., Limited ("YLCMT")* # 一拖(洛陽)工程機械銷售有限公司	PRC	RMB8,000,000	100	—	Trading of road rollers and construction machinery

18. INTERESTS IN SUBSIDIARIES *(continued)*

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	Percentage of equity attributable to the Company Indirect	Principal activities
Luoyang Changxing Agriculture Machinery Company Limited* # 洛陽長興農業機械有限公司	PRC	RMB3,000,000	70	30	Trading of tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. ("YLAT")* # 一拖(洛陽)機具有限公司	PRC	RMB10,000,000	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	PRC	RMB51,718,205	58.8	22.5	Manufacture and sale of diesel engines
Yituo (Luoyang) Fuel Jet Co., Ltd. ("YLFJ")* # 一拖(洛陽)燃油噴射有限公司	PRC	RMB77,000,000	52	36.3	Manufacture and sale of fuel injection pumps and fuel jets
Yituo (Luoyang) Engines Machinery Company Limited ("YEMC")* # 一拖(洛陽)動力機械有限公司	PRC	RMB38,000,000	42	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	PRC	RMB55,880,000	91.1	—	Manufacture and sale of fork lifts

18. INTERESTS IN SUBSIDIARIES *(continued)*

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	
Yituo (Luoyang) Fork Lift Trading Co., Ltd. ("YLFT")* # 一拖(洛陽)叉車銷售有限公司	PRC	RMB800,000	—	91.1	Sale of fork lifts
YTO (Xinjiang) Dongfanghong Machining Co., Ltd.* # 一拖（新疆）東方紅裝備機械有限公司	PRC	RMB25,000,000	100	—	Manufacture and sale of tractors, parts and components
China-Africa Machinery Corp. + 中非重工投資有限公司	PRC	RMB100,040,000	55	—	Investment management, agency for importing and exporting goods and technology
YTO Heilongjiang Modern Agricultural Machinery Co., Ltd.* # 一拖黑龍江現代農業裝備有限公司	PRC	RMB20,000,000	51	—	Manufacture and sale of tractors, parts and components

18. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

(i) In accordance with YLBC's articles of association and the joint venture agreement entered into between the Company and the other two shareholders, which held 33% and 32% equity interests of YLBC, respectively, each of these two shareholders has conferred 8% voting rights in the shareholders' meeting of YLBC to the Company. Therefore, the Company can exercise control over the financial and operating policies of YLBC.

(ii) The percentages of equity interests in YLST held by the Company and the Holding are 50% and 24%, respectively. The Holding conferred all of its voting rights in the shareholders' meeting of YLST to the Company, such that the Company can exercise control over the financial and operating policies of YLST.

* 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.

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**113,000**	113,000
Share of net assets	**11,696**	18,918	**—**	—
	11,696	18,918	**113,000**	113,000
Provision for impairment	**—**	—	**(101,304)**	(93,644)
	11,696	18,918	**11,696**	19,356

The Group's deposits from associates are disclosed in Note 33 to the consolidated financial statements.

The Group's trade balances with associates are disclosed in Note 23 to the consolidated financial statements.

19. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates at 31 December 2009 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Luoyang First Motors Company Limited (“LFMC”)* 洛陽福賽特汽車股份有限公司	Ordinary shares of RMB1 each	PRC	29.5	—	Design, manufacture and sale of vehicles and related accessories
YTO Shunxing (Luoyang) Spare Parts Co., Ltd.* 一拖順興（洛陽）零部件有限公司	Ordinary shares of RMB1 each	PRC	40	—	Manufacture, sale and service of forged steel crankshafts

* The names of the PRC associates in English are direct translations of their respective registered names in Chinese.

All the above associates have been accounted for using the equity method in the Group's financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2009 **RMB'000**	2008 RMB'000
Assets	**43,739**	65,514
Liabilities	**4,670**	7,985
Revenue	**28,494**	58,710
Loss	**(3,987)**	(702)

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed equity investments in the PRC, at fair value	**108,679**	48,157	**102,525**	48,157
Unlisted equity investments, at cost	**61,920**	60,925	**26,463**	26,463
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	59,797	58,802	**24,340**	24,340
	168,476	106,959	**126,865**	72,497

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to approximately RMB54,000,000 (2008: gross loss of approximately RMB57,000,000). In 2008, gross loss of approximately RMB14,000,000 was removed from equity and recognised in the income statement for that year.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments were estimated by the directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with an allowance made for the lower liquidity of the unlisted securities.

As at 31 December 2009, the unlisted equity investments of the Group and the Company are 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.

21. LOANS RECEIVABLE

Group

	Notes	Gross amount RMB'000	Provisions RMB'000	Net RMB'000
2009				
Loans to the Holding	(i)	**314,800**	**5,380**	**309,420**
Loans to related companies	(ii)	**76,396**	**3,393**	**73,003**
Loans to customers	(iii)	**8,885**	**406**	**8,479**
		400,081	**9,179**	**390,902**
Portion classified as current assets		**(261,016)**	**(5,392)**	**(255,624)**
Long term portion		**139,065**	**3,787**	**135,278**
2008				
Loans to the Holding	(i)	302,800	4,542	298,258
Loans to related companies	(ii)	129,523	5,969	123,554
Loans to customers	(iii)	3,296	1,916	1,380
		435,619	12,427	423,192
Portion classified as current assets		(218,236)	(9,167)	(209,069)
Long term portion		217,383	3,260	214,123

21. LOANS RECEIVABLE *(continued)*

Notes:

(i) The loans to the Holding are granted by FTGF, and are unsecured, bear interest at rates ranging from 3.98% to 4.50% (2008: 5.67% to 7.47%) per annum and are repayable within one to five years (2008: one to five years).

(ii) The loans to these companies (fellow subsidiaries and associates of the Holding) are unsecured, bear interest at rates ranging from 4.43% to 7.25% (2008: 5.29% to 9.71%) per annum and are repayable within one year (2008: one to five years).

(iii) The loans to customers represent the loans granted to certain customers as permitted by the People's Bank of China (the "PBOC").

The movements in impairment during the year are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**12,427**	12,328
Net provisions (credited)/charged to the income statement *(Note 7)*	**(1,770)**	99
Amounts written off as uncollectible	**(1,478)**	—
At 31 December	**9,179**	12,427

21. LOANS RECEIVABLE *(continued)*

The maturity profile of the Group's loans receivable at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates, as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Repayable:		
Within three months	**2,405**	14,835
Within one year but over three months	**258,611**	203,401
Within five years but over one year	**138,472**	216,075
Over five years	**593**	1,308
	400,081	435,619

The carrying amounts of the Group's loans receivable approximate to their fair values and are denominated in Renminbi.

22. INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**189,409**	175,774	**59,045**	52,874
Work in progress	**314,127**	280,156	**177,302**	156,469
Finished goods	**499,510**	357,905	**217,576**	99,954
Spare parts and consumables	**15,821**	28,168	**17,240**	18,605
	1,018,867	842,003	**471,163**	327,902

23. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills receivables	**382,592**	316,915	**216,719**	184,892
Trade receivables	**662,131**	657,684	**472,828**	521,639
	1,044,723	974,599	**689,547**	706,531
Impairment	**(166,403)**	(160,727)	**(31,748)**	(14,846)
	878,320	813,872	**657,799**	691,685

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. The Group seeks to maintain strict control over its outstanding receivables. Trade receivables are non-interest-bearing.

The carrying amounts of the Group's loans receivable approximate to their fair values and the majority of which are denominated in Renminbi.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**470,153**	457,445	**363,743**	430,025
91 days to 180 days	**356,511**	297,133	**245,027**	231,089
181 days to 365 days	**36,771**	39,215	**36,771**	20,684
1 to 2 years	**14,751**	16,807	**12,258**	9,887
Over 2 years	**134**	3,272	**—**	—
	878,320	813,872	**657,799**	691,685

23. TRADE AND BILLS RECEIVABLES *(continued)*

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**160,727**	177,230	**14,846**	13,352
Classified as assets included in a disposal group at the beginning of the year	**34,167**	—	**—**	—
Impairment during the year *(Note 7)*	**20,558**	27,969	**17,651**	3,611
Amounts written off as uncollectible	**(13,942)**	(10,305)	**(749)**	(2,117)
Assets included in a disposal group	**—**	(34,167)	**—**	—
Disposal of subsidiaries	**(35,107)**	—	**—**	—
	166,403	160,727	**31,748**	14,846

Included in the above provision for impairment of trade receivables are individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**826,664**	754,578	**608,770**	661,114
Less than six months past due	**36,771**	39,215	**36,771**	20,684
Over six months past due	**14,885**	20,079	**12,258**	9,887
	878,320	813,872	**657,799**	691,685

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.

23. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were past due but not impaired relate to a number of independent customers that have a good track 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 2009, certain of the Group's and the Company's bills receivable of approximately RMB18,000,000 (2008: approximately RMB59,815,000) and approximately RMB15,000,000 (2008: approximately RMB9,000,000), respectively, were pledged for the issuance of bills payable.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from the Holding of approximately RMB6,871,000 (2008: approximately RMB45,000) and RMB6,788,000 (2008: approximately RMB45,000), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from associates aggregating approximately RMB1,369,000 (2008: approximately RMB124,000) and RMB1,369,000 (2008: approximately RMB124,000), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Group and the Company are unsecured trade receivables due from related companies (fellow subsidiaries and associates of the Holding) of approximately RMB28,796,000 (2008: approximately RMB37,263,000) and approximately RMB21,055,000 (2008: approximately RMB22,676,000), respectively. These balances are interest-free and have no fixed terms of repayment.

Included in the trade and bills receivables of the Company are unsecured trade receivables due from subsidiaries of approximately RMB271,943,000 (2008: approximately RMB312,713,000). These balances are interest-free and have no fixed terms of repayment.

24. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operations. Included in the bills discounted receivable (net of impairment) of the Group for the current year are approximately RMB5,843,000 (2008: approximately RMB118,698,000) attributable to the Holding and none (2008: approximately RMB1,165,000) attributable to associates of the Holding.

The maturity profile of the Group's bills discounted receivable at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Maturing:		
Within three months	**21,560**	80,803
Within six months but over three months	**127,355**	50,449
	148,915	131,252
Less: Impairment allowance for bills discounted receivable	**(1,500)**	(1,969)
	147,415	129,283

The movements in impairment allowance during the year are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**1,969**	566
Net provisions (credited)/charged to the income statement *(Note 7)*	**(469)**	1,403
At 31 December	**1,500**	1,969

Except for an immaterial amount of impaired bills discounted receivable, the bills discounted receivable is neither past due nor impaired. The balances relate to receivables for which there was no recent history of default.

The carrying amounts of the Group's bills discounted receivable approximate to their fair values and are denominated in Renminbi.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**497,093**	288,683	**357,129**	178,033
Due from the Holding *(Note 26)*	**114,925**	115,921	**12,261**	8,309
	612,018	404,604	**369,390**	186,342

The above balances are net of impairment allowance and the majority of which are denominated in Renminbi. The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**15,939**	15,534	**11,037**	11,037
Classified as assets included in a disposal group at the beginning of the year	**1,208**	—	**—**	—
Impairment during the year *(Note 7)*	**11,561**	4,603	**5,882**	—
Amounts written off as uncollectible	**(16,242)**	(2,990)	**(8,730)**	—
Assets included in a disposal group	**—**	(1,208)	**—**	—
Disposal of subsidiaries	**(843)**	—	**—**	—
At 31 December	**11,623**	15,939	**8,189**	11,037

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) of approximately RMB7,776,000 (2008: approximately RMB48,394,000) and approximately RMB7,535,000 (2008: approximately RMB27,507,000), respectively. They are interest-free and have no fixed terms of repayment.

Other balances are unsecured and interest-free, and have no fixed terms of repayment.

26. DUE FROM / TO THE HOLDING

Included in the balance due from the Holding is an amount of approximately RMB95,761,000 (2008: approximately RMB107,000,000), which is secured by the Holding's certain machinery. They are interest-free and are repayable in 2010 (2008: repayable in 2009).

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Listed equity investments, at market value:		
Hong Kong	**8,777**	—
The PRC	**20,165**	4,444
	28,942	4,444

The above financial assets at 31 December 2009 and 2008 were classified as held for trading.

28. HELD-TO-MATURITY FINANCIAL ASSETS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Unlisted bonds, at amortised cost:		
The PRC	**10,140**	—

The above unlisted bonds bear interest rate at 2.29% per annum and mature on 22 May 2010. Held-to-maturity financial assets are presented in the statement of financial position at amortised cost discounted by effective interest method and net of any impairment allowances.

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
		2009	2008	**2009**	2008
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — *(Note (i))*		**848,922**	657,466	**257,107**	262,910
Mandatory reserve deposits with the PBOC : *(Note (ii))*		**56,259**	67,679	**—**	—
Time deposits : *(Note (iii))*		**304,197**	399,747	**198,920**	38,080
		1,209,378	1,124,892	**456,027**	300,990
Less: Pledged bank deposits: — For bills payable	30	**(294,197)**	(366,357)	**(188,920)**	(35,080)
Cash and cash equivalents in the statement of financial position		**915,181**	758,535	**267,107**	265,910
Less: Non-pledged time deposits — *(Note (iii))*		**(10,000)**	(13,000)		
Less: Mandatory reserve deposits with the PBOC : *(Note (ii))*		**(56,259)**	(67,679)		
Add: Pledged bank deposits for issuing bills payable :		**294,197**	366,357		
Cash and cash equivalents in the consolidated statement of cash flow		**1,143,119**	1,044,213		

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(continued)*

Notes:

(i) The balance included FTGF's deposits placed with the PBOC and other banks of approximately RMB70,357,000 (2008: approximately RMB229,563,000) and approximately RMB176,009,000 (2008: approximately RMB170,596,000), 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 FTGF. The mandatory reserve deposits are not available for use in the Group's day-to-day operations.

(iii) The maturity profile of the Group's time deposits at the end of the reporting period is analysed as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Maturity within three months when acquired	**294,197**	386,747
Maturity within one year but over three months when acquired	**10,000**	13,000
	304,197	399,747

At the end of the reporting period, the cash and bank balances of the Group denominated in HK dollars and US dollars amounted to approximately RMB30,319,000 (2008: approximately RMB35,395,000) and approximately RMB81,428,000 (2008: approximately RMB7,405,000), 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 banks authorised 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 balance and pledged bank balances are deposited with creditworthy banks with no recent history of default.

30. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**1,229,411**	1,125,511	**835,517**	508,883
91 days to 180 days	**224,913**	168,224	**65,974**	50,709
181 days to 365 days	**84,531**	70,577	**22,301**	36,269
1 to 2 years	**59,276**	37,901	**34,329**	10,864
Over 2 years	**72,310**	46,785	**34,987**	13,137
	1,670,441	1,448,998	**993,108**	619,862

The Group's bills payables amounting to approximately RMB330,103,000 (2008: approximately RMB411,070,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB294,197,000 (2008: approximately RMB366,357,000) (Note 29).

Included in the trade and bills payables of the Group and the Company are unsecured trade payables due to the Holding of approximately RMB6,645,000 (2008: approximately RMB4,737,000) and approximately RMB3,865,000 (2008: approximately RMB29,000), respectively. They are interest-free and have no fixed terms of repayment.

Included in the trade and bills payables of the Group and the Company are unsecured trade payables due to the related companies (fellow subsidiaries and associates of the Holding) of approximately RMB12,680,000 (2008: approximately RMB14,367,000) and approximately RMB4,155,000 (2008: approximately RMB1,471,000), respectively. They are interest-free and have no fixed terms of repayment.

Included in the trade and bills payables of the Company are unsecured trade payables due to subsidiaries of approximately RMB13,125,000 (2008: approximately RMB14,699,000).

The carrying amounts of the Group's trade and bills payables approximate to their fair values and the majority of which are denominated in Renminbi.

31. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2009	2008	**2009**	2008
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Accruals and other liabilities		**412,623**	390,971	**99,922**	158,959
Due to the Holding	26	**7,571**	49,021	**7,571**	13,281
Current portion of deferred income	36	**3,786**	3,786	**2,768**	2,768
		423,980	443,778	**110,261**	175,008

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB337,000 (2008: approximately RMB10,182,000). These balances are unsecured, interest-free and denominated in Renminbi, and have no fixed terms of repayment.

Included in other liabilities of the Company are amounts due to subsidiaries totaling approximately RMB60,072,000 (2008: approximately RMB39,386,000). These balances are unsecured, interest-free and denominated in Renminbi, and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding) of approximately RMB32,311,000 (2008: approximately RMB30,271,000) and approximately RMB82,000 (2008: approximately RMB25,621,000), respectively. These balances are unsecured, interest-free and denominated in Renminbi, and have no fixed terms of repayment.

32. PROVISIONS

Group

	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	54,885	8,780	63,665
Classified as liabilities directly associated with the assets classified as held for sale at the beginning of the year *(Note 41)*	2,673	(390)	2,283
Provision for the year *(Note 7)*	81,261	33,306	114,567
Amounts utilised during the year	(26,150)	(29,662)	(55,812)
Disposal of subsidiaries *(Note 39)*	(97)	(37)	(134)
At 31 December 2009	112,572	11,997	124,569
Portion classified as current liabilities	(24,372)	(11,997)	(36,369)
Non-current portion	88,200	—	88,200

Company

	Early retirement benefits	Product warranties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	39,008	2,000	41,008
Provision for the year	60,050	2,577	62,627
Amounts utilised during the year	(17,218)	(2,577)	(19,795)
At 31 December 2009	81,840	2,000	83,840
Portion classified as current liabilities	(19,210)	(2,000)	(21,210)
Non-current portion	62,630	—	62,630

32. 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 40 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.

33. CUSTOMER DEPOSITS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Deposits from the Holding	**92,627**	70,264
Deposits from associates	**151**	367
Deposits from fellow subsidiaries and associates of the Holding	**185,790**	124,653
Deposits from customers	**17,678**	2,933
	296,246	198,217

The carrying amount of customer deposits approximates their fair value and 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	
	2009	2008
	RMB'000	*RMB'000*
Repayable:		
On demand	**260,446**	196,611
Within three months	**35,500**	—
Within one year but over three months	**300**	1,345
Over one year	**—**	261
	296,246	198,217

34. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	Group		Company	
	(%)		**2009**	2008	**2009**	2008
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current						
Bank borrowings						
Unsecured	4.85% - 6.90%	Year 2010	**143,000**	97,000	**100,000**	30,000
Current portion of long term bank borrowings-secured			**—**	70,000	**—**	50,000
			143,000	167,000	**100,000**	80,000
Non-current						
Bank borrowings:						
Secured			**—**	144,000	**—**	144,000
			143,000	311,000	**100,000**	224,000
Analysed into:						
Bank borrowings repayable:						
Within one year or on demand			**143,000**	167,000	**100,000**	80,000
In the second year			**—**	64,000	**—**	64,000
In the third to fifth years, inclusive			**—**	80,000	**—**	80,000
			143,000	311,000	**100,000**	224,000

All the above bank borrowings of the Group and the Company as at 31 December 2009 and 31 December 2008 are denominated in Renminbi.

34. INTEREST-BEARING BANK BORROWINGS *(continued)*

Other interest rate information:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed interest rate	**143,000**	87,000	**100,000**	—
Floating interest rate	**—**	224,000	**—**	224,000
	143,000	311,000	**100,000**	224,000

Certain of the Group's bank borrowings are secured by:

(i) certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB41,799,000 (2008: RMB62,308,000). The Company has not pledged its buildings and machinery in the current year (2008: RMB29,178,000) (Note 15);

(ii) certain of the Holding's prepaid operating leases;

(iii) a subsidiary's prepaid operating leases with an aggregate net carrying value of approximately RMB6,436,000 (2008: approximately RMB8,404,000) (Note 16);

(iv) prepaid operating leases of a minority shareholder;

(v) corporate guarantees provided by the Company and certain subsidiaries of the Group; and

(vi) guarantees provided by the Holding.

The carrying amounts of the Group's and the Company's bank borrowings approximate to their fair values, which are calculated by discounting the expected future cash flows at the prevailing interest rates.

35. DEFERRED INCOME TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Group Revaluation of available-for-sale financial assets *RMB'000*	Company Revaluation of available-for-sale financial assets *RMB'000*
At 1 January 2009	4,332	4,332
Deferred tax debited to equity during the year	8,777	8,155
Gross deferred tax liabilities at 31 December 2009	13,109	12,487
At 1 January 2008	25,225	21,570
Deferred tax credited to the income statement during the year *(Note 11)*	(247)	—
Deferred tax credited to equity during the year	(20,646)	(17,238)
Gross deferred tax liabilities at 31 December 2008	4,332	4,332

No deferred 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.

35. DEFERRED INCOME TAX *(continued)*

The movements in deferred tax liabilities and assets during the year are as follows: *(continued)*

Deferred tax assets

2009

Group	Loss available for offset against future taxable profit	Early retirement benefits	Other deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	**7,422**	**6,384**	**35,301**	**49,107**
Net deferred tax assets included in the disposal group at the beginning of year *(Note 41)*	**—**	**668**	**666**	**1,334**
Deferred tax credited to the income statement during the year *(Note 11)*	**(7,422)**	**6,947**	**10,611**	**10,136**
Disposal of subsidiaries *(Note 39)*	**—**	**(668)**	**(666)**	**(1,334)**
Deferred tax assets at 31 December 2009	**—**	**13,331**	**45,912**	**59,243**

Company	Early retirement benefits	Other deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	5,851	31,339	37,190
Deferred tax credited to the income statement during the year	6,425	8,623	15,048
Deferred tax assets at 31 December 2009	12,276	39,962	52,238

35. DEFERRED INCOME TAX *(continued)*

The movements in deferred tax liabilities and assets during the year are as follows: *(continued)*

Deferred tax assets *(continued)*

2008

Group	**Loss available for offset against future taxable profit**	**Early retirement benefits**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	462	3,751	24,118	28,331
Deferred tax credited to the income statement during the year *(Note 11)*	6,960	3,301	11,849	22,110
Gross deferred tax assets at 31 December 2008	7,422	7,052	35,967	50,441
Net deferred tax assets included in the disposal group *(Note 41)*	—	(668)	(666)	(1,334)
Net deferred tax assets presented on the face of the consolidated statement of financial position	7,422	6,384	35,301	49,107

Company	**Early retirement benefits**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2008	2,327	13,427	15,754
Deferred tax credited to the income statement during the year	3,524	17,912	21,436
Gross deferred tax assets at 31 December 2008	5,851	31,339	37,190

35. DEFERRED INCOME TAX *(continued)*

Deferred tax assets *(continued)*

The principal components of the Group's deductible temporary differences and unused tax losses for which no deferred tax assets were recognised in the financial statements are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Tax losses - Mainland China	**364,669**	334,307
Assets provision	**364,574**	343,048
Other deductible temporary differences	**63,693**	31,583
	792,936	708,938

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
For purpose of disclosure:				
Deferred tax assets	**59,243**	49,107	**52,238**	37,190
Deferred tax liabilities	**(13,109)**	(4,332)	**(12,487)**	(4,332)
	46,134	44,775	**39,751**	32,858

Deferred 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 the recoverability of the deferred tax assets is 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 attaching to the payment of dividends by the Company to its shareholders.

36. DEFERRED INCOME

The movements of deferred income in relation to government grants as stated under current and non-current liabilities are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**107,560**	108,432	**99,416**	97,010
Classified as liabilities directly associated with the assets classified as held for sale at the beginning of the year *(Note 41)*	**2,244**	—	**—**	—
Received during the year	**5,835**	6,064	**5,798**	3,790
Recognised as other income and gains during the year *(Note 6)*	**(5,909)**	(4,692)	**(4,853)**	(1,384)
Liabilities directly associated with the assets classified as held for sale *(Note 41)*	**—**	(2,244)	**—**	—
Disposal of subsidiaries *(Note 39)*	**(2,244)**	—	**—**	—
At 31 December	**107,486**	107,560	**100,361**	99,416
Current portion included in other payables and accruals *(Note 31)*	**(3,786)**	(3,786)	**(2,768)**	(2,768)
Non-current portion	**103,700**	103,774	**97,593**	96,648

37. SHARE CAPITAL

	Company	
	2009	2008
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**443,910**	443,910
H shares of RMB1.00 each	**401,990**	401,990
	845,900	845,900

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 71 to 72 of the financial statements.

In accordance with the Company Law of the PRC 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.

The SSR may only be used to offset accumulated losses, to expand the production operations of the Company, or to increase its paid-up capital.

38. RESERVES *(continued)*

(a) Group *(continued)*

Pursuant to the relevant laws and regulations, certain subsidiaries of the Group which are Sino-foreign joint venture 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, as dealt with in the Group's financial statements, were approximately RMB24,020,000 (2008: approximately RMB13,824,000).

During the year, no reserve fund (2008: RMB217,000) and the enterprise expansion fund (2008: RMB217,000), as dealt with in the Group's financial statements, were appropriated by the Company and and its subsidiaries.

The associates did not make any appropriation to the SSR in the current and prior years.

Pursuant to the relevant PRC regulations, FTGF, 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 (2008: determined based on 1% of realised net profit for the year), to the general and statutory reserve through its profit appropriation.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated retained profits.

38. RESERVES *(continued)*

(b) Company

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Available-for-sale financial assets reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009		**1,539,938**	**69,601**	**48,388**	**24,546**	**55,535**	**1,738,008**
Profit for the year	12	**—**	**—**	**—**	**—**	**178,134**	**178,134**
Changes in fair values of available-for-sale financial assets		**—**	**—**	**—**	**46,212**	**—**	**46,212**
Final 2008 dividend paid		**—**	**—**	**—**	**—**	**(434)**	**(434)**
Proposed final 2009 dividend	13	**—**	**—**	**—**	**—**	**(101,508)**	**(101,508)**
Transfer from/(to) reserves		**—**	**17,857**	**—**	**—**	**(17,857)**	**—**
At 31 December 2009		**1,539,938**	**87,458**	**48,388**	**70,758**	**113,870**	**1,860,412**
At 1 January 2008		1,539,938	61,348	48,388	64,711	24,029	1,738,414
Profit for the year	12	—	—	—	—	82,054	82,054
Changes in fair values of available-for-sale financial assets		—	—	—	(40,165)	—	(40,165)
Proposed final 2008 dividend	13	—	—	—	—	(42,295)	(42,295)
Transfer from/(to) reserves		—	8,253	—	—	(8,253)	—
At 31 December 2008		1,539,938	69,601	48,388	24,546	55,535	1,738,008

During the year, the Company appropriations to the SSR amounted to approximately RMB17,857,000 (2008: approximately RMB8,253,000).

At the end of the reporting period, the Company did not utilise any of the SSR.

As at 31 December 2009, the Company has retained profits of approximately RMB113,870,000 (2008: approximately RMB55,535,000) available for distribution by way of cash or cash in kind.

38. RESERVES *(continued)*

(b) Company *(continued)*

As at 31 December 2009, in accordance with the Company Law of the PRC, an amount of approximately RMB1.54 billion (2008: approximately RMB1.54 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

39. DISPOSAL OF SUBSIDIARIES

The Group entered into disposal agreements for the disposal of three subsidiaries to independent third parties during 2009. The principal activity of subsidiaries is the manufacture and sale of construction machinery.

Details of net assets disposed in the transaction are as follows:

	Notes	**2009** *RMB'000*
Net assets disposed of:		
Property, plant ad equipment	15	**61,388**
Prepaid operating leases	16	**8,341**
Deferred tax assets	35	**1,334**
Available-for-sale financial assets		**2,014**
Cash and bank balances		**37,868**
Pledged bank balances		**10,064**
Inventories		**77,882**
Trade and bill receivables		**112,774**
Prepayments, deposits and other receivables		**173,687**
Interest-bearing bank borrowings		**(97,500)**
Trade and bills payables		**(137,656)**
Other payables and accruals		**(95,101)**
Tax payables		**(761)**
Provisions	32	**(134)**
Deferred income	36	**(2,244)**
Minority interests		**(69,779)**
		82,177
Gain on disposal of subsidiaries	6, 7	**29,648**
		111,825

39. DISPOSAL OF SUBSIDIARIES *(continued)*

Details of net assets disposed in the transaction are as follows:*(continued)*

	Notes	**2009** *RMB'000*
Satisfied by:		
Cash		**99,148**
Other receivables		**12,677**
		111,825
Net cash inflow in respect of the net assets disposed:		
Cash consideration		**99,148**
Cash and bank balances disposed of		**(47,932)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		**51,216**

39. DISPOSAL OF SUBSIDIARIES *(continued)*

Details of disposal of subsidiaries of the Group during the year are as follows:

(I) On 26 March 2009, the Group entered into a disposal agreement for the disposal of whole shareholding of 59% of two subsidiaries, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM") and Zhenjiang Huatong Aran Machinery Company Limited ("ZHAM"), to Singapore Commuter Private Limited for a consideration of approximately RMB85,145,000. The transaction was completed on 30 April 2009. The principal activity of the subsidiaries is manufacture and sale of road construction machinery.

Details of net assets disposed in the transaction are as follows:

	2009 *RMB'000*
Net assets disposed of:	
Property, plant ad equipment	**53,254**
Prepaid operating leases	**8,341**
Deferred tax assets	**1,334**
Available-for-sale financial assets	**814**
Cash and bank balances	**24,014**
Pledged bank balances	**10,064**
Inventories	**77,882**
Trade and bill receivables	**111,505**
Prepayments, deposits and other receivables	**90,398**
Interest-bearing bank borrowings	**(83,000)**
Trade and bills payables	**(92,228)**
Other payables and accruals	**(87,709)**
Tax payables	**(761)**
Provisions	**(134)**
Deferred income	**(2,244)**
Minority interests	**(50,015)**
	61,515
Gain on disposal of subsidiaries	**23,630**
	85,145

39. DISPOSAL OF SUBSIDIARIES *(continued)*

Details of disposal of subsidiaries of the Group during the year are as follows: *(continued)*

(I) On 26 March 2009, the Group entered into a disposal agreement for the disposal of whole shareholding of 59% of two subsidiaries, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM") and Zhenjiang Huatong Aran Machinery Company Limited ("ZHAM"), to Singapore Commuter Private Limited for a consideration of approximately RMB85,145,000. The transaction was completed on 30 April 2009. The principal activity of the subsidiaries is manufacture and sale of road construction machinery. *(continued)*

Details of net assets disposed in the transaction are as follows: *(continued)*

	2009
	RMB'000
Satisfied by:	
Cash	**72,468**
Other receivables	**12,677**
	85,145
Net cash inflow in respect of the net assets disposed:	
Cash consideration	**72,468**
Cash and bank balances disposed of	**(34,078)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**38,390**

39. DISPOSAL OF SUBSIDIARIES *(continued)*

Details of disposal of subsidiaries of the Group during the year are as follows: *(continued)*

(II) In July 2009, the Group entered into a disposal agreement for the disposal of whole shareholding of 51% of a subsidiary, Yituo (Luoyang) Lutong Construction Machinery Company Limited, to an independent third party for a consideration of approximately RMB26,680,000. The transaction was completed on 30 June 2009. The principal activity of Yituo (Luoyang) Lutong Construction Machinery Company Limited is the manufacture and sale of construction machinery.

Details of net assets disposed in the transaction are as follows:

	2009 *RMB'000*
Net assets disposed of:	
Property, plant and equipment	**8,134**
Available-for-sale financial assets	**1,200**
Cash and bank balances	**13,854**
Trade and bill receivables	**1,269**
Prepayments, deposits and other receivables	**83,289**
Interest-bearing bank borrowings	**(14,500)**
Trade and bills payables	**(45,428)**
Other payables and accruals	**(7,392)**
Minority interests	**(19,764)**
	20,662
Gain on disposal of a subsidiary	**6,018**
	26,680
Satisfied by:	
Cash	**26,680**
Net cash inflow in respect of the net assets disposed:	
Cash consideration	**26,680**
Cash and bank balances disposed of	**(13,854)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**12,826**

40. 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% (2008: 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 factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to certain historical salaries of these early retirees. The costs of early retirement benefits are recognised in the period when employees opt for early retirement.

41. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to the board of directors' resolution of BCM, a subsidiary of the Company, on 9 December 2008, it has approved the disposal of its 59% of equity interests in each of ZHAM and ZHHRM each. The considerations were determined with reference to their revaluations performed by independent professional valuer. In December 2008, BCM entered into a letter of intent with a potential purchaser. As at 31 December 2008, ZHAM and ZHHRM were classified as a disposal group held for sale. On 26 March 2009, the Group entered into a disposal agreement with Singapore Commuter Private Limited for the transaction and the transaction was completed on 30 April 2009. Further details of the transaction are included in Note 39 to the financial statements.

The results of ZHAM and ZHHRM for the year ended 31 December 2008 are presented as follows:

	2008
	RMB'000
Revenue	484,047
Expenses	(480,071)
Profit before income tax	3,976
Income tax expense	(603)
Profit for the year	3,373

41. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

The major class of assets and liabilities of ZHAM and ZHHRM classified as held for sale as at 31 December 2008 are as follows:

	Notes	**2008** *RMB'000*
Assets		
Property, plant and equipment	15	55,217
Trade and bills receivables		99,034
Prepayment, deposits and other receivables - *(Note (i))*		42,802
Inventories		74,931
Prepaid operating leases	16	8,404
Available-for-sale financial assets		800
Deferred tax assets	35	1,334
Pledged bank balances- *(Note (ii))*		11,688
Cash and cash equivalents - *(Note (ii))*		22,802
Assets classified as held for sale		317,012
Liabilities		
Trade and bills payables		(88,400)
Other payables and accruals		(22,808)
Tax payable		(528)
Provisions	32	(2,283)
Interest-bearing bank borrowings		(90,000)
Deferred income	36	(2,244)
Liabilities directly associated with assets classified as held for sale		(206,263)
Net assets directly associated with the disposal group		110,749

41. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

The net cash flows incurred by ZHAM and ZHHRM are presented as follows:

	2008
	RMB'000
Operating activities	19,438
Investing activities	(8,938)
Financing activities	6,256
Net cash inflow	16,756

Notes:

(i) Included in the other receivables are amounts of ZHHRM due from its minority shareholder, Jiangsu Huatong Machinery Co., Ltd. ("Huatong") totaling RMB23,388,000. Pursuant to an agreement between Huatong and the Holding dated 27 March 2007, Huatong has agreed in writing to repay the balance due to ZHHRM of RMB18,382,000 before 31 December 2007 and has pledged its entire equity interests in ZHHRM to the Holding for securing the balance and the Holding in turn guaranteed that any proceeds from the disposal of this equity interest in Huatong will be solely used to compensate for any loss suffered by ZHHRM should Huatong ultimately default in payment to ZHHRM. In addition, ZHHRM is now negotiating the settlement of the remaining balances of RMB5,006,000 due from Huatong as at the date of these financial statements.

The directors are of the view that the outstanding balance due from Huatong is recoverable, and therefore no provision has been made in respect thereof.

(ii) The cash and cash equivalents and pledged bank balances for issuing bills payable of an aggregate amount of RMB34,490,000 were included in cash and cash equivalents in the consolidated cash flow statement for the year ended 31 December 2008.

42. CONTINGENT LIABILITIES

The contingent liabilities not provided for in the Group's and the Company's financial statements are as follows:

Group

As at 31 December 2009, the Group had given corporate guarantees of approximately RMB30,000,000 (2008:Nil) to certain banks for securing credit facilities granted to certain subsidiaries. The facilities from certain banks were utilised in aggregate to the extent of approximately RMB30,000,000 (2008: Nil).

As at 31 December 2008, ZHHRM, a subsidiary of the Group, had provided a guarantee to a bank for securing an outstanding loan of RMB14,000,000 granted to a previous customer of the Group. The borrower has defaulted in repayment of the bank loan when it was due on 28 October 2007, and currently a certain receivable of RMB19,000,000 owed to the borrower was frozen by a court order for the purpose of settlement of the bank loan. Huatong has provided a counter-guarantee to ZHHRM and has expressed to the court its willingness to use certain of its prepaid operating leases to settle the bank loan. In addition, ZHHRM has received a court order to freeze its assets amounting to RMB16,000,000 for securing the settlement of the bank loan, and in fact ZHHRM's bank balance of RMB760,000 was frozen at the date of these financial statements. After due and careful enquiry and taking into account independent PRC legal opinion, the directors are of the view that this guarantee will not have material adverse effect on the Group, and therefore no provision has been made in respect thereof.

Upon completion of the disposal of the Group's entire 59% of equity interests in ZHHRM during the year, the Group had no longer included the aforesaid guarantee provided by ZHHRM. Further details of this transaction are included in Note 39 (I) to the financial statements.

Company

As at 31 December 2009, the Company had given corporate guarantees of approximately RMB183,000,000 (2008: approximately RMB215,000,000) and approximately RMB101,000,000 (2008: approximately RMB219,000,000) to FTGF and certain banks, respectively, for securing credit facilities granted by FTGF and several banks to certain subsidiaries. The facilities from FTGF and certain banks were utilised in aggregate to the extent of approximately RMB225,000,000 (2008: approximately RMB385,000,000).

Save as the aforesaid, neither the Group nor the Company had any significant contingent liabilities.

43. PLEDGE OF ASSETS

Details of the Group's bills payables and bank loans, which are secured by certain assets of the Group, are included in Notes 30 and 34 to the financial statements, respectively.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings, plant and machinery (Note 15) under operating lease arrangements. Leases for buildings, plant and machinery 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 31 December 2009, the Group and the Company had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**385**	246	**—**	—
In the second to fifth years, inclusive	**—**	385	**—**	—
	385	631	**—**	—

44. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) 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 fifty years, and those for plant and machinery are for terms of one year with renewal options.

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**23,602**	7,751	**7,299**	5,020
In the second to fifth years, inclusive	**47,203**	20,084	**14,599**	20,000
	70,805	27,835	**21,898**	25,020

45. COMMITMENTS

In addition to the operating lease commitments detailed in Note 44(b) above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Purchases of plant and machinery	**47,710**	29,877	**47,710**	29,253
Acquisition of a subsidiary	**5,002**	—	**—**	—
	52,712	29,877	**47,710**	29,253
Authorised, but not contracted for:				
Purchases of prepaid operating leases	**—**	231,736	**—**	231,736
Purchases of plant and machinery	**914,683**	856,243	**882,693**	856,245
Additional capital contribution into a subsidiary	**—**	—	**75,000**	159,075
Investment in a joint venture	**—**	120,526	**—**	120,526
	914,683	1,208,505	**957,693**	1,367,582
	967,395	1,238,382	**1,005,403**	1,396,835

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

(a) The significant transactions carried out between the Group and the Holding group and related companies (fellow subsidiaries and associates of the Holding), during the year are summarised as follows:

	Notes	2009 RMB'000	2008 RMB'000
Sale of raw materials, finished goods and components	(i)	**420,755**	827,904
Purchases of raw materials and components	(ii)	**1,151,558**	877,406
Purchases of utilities	(iii)	**98,439**	124,438
Fees paid for welfare and support services	(iv)	**35,139**	31,758
Purchases of transportation services	(iv)	**36,904**	32,604
Research and development expenses paid	(v)	**48,103**	51,079
Fees paid for the use of land	(vi)	**17,647**	17,209
Fees paid for the use of a trademark	(vii)	**14,740**	12,003
Rentals paid in respect of:			
Buildings	(viii)	**4,011**	5,655
Plant and machinery	(ix)	**71**	247
Rental income received in respect of buildings	(x)	**4,269**	5,365
Sale of construction in progress	(xi)	**—**	5,159
Purchases of plant and machinery	(xi)	**—**	11,746
Interest income and discounted bill charges	(xii)	**21,156**	36,040
Interest paid for customer deposits	(xiii)	**1,093**	819
Service charge for a guarantee	(xiv)	**150**	72

Particulars of the significant transactions carried out between the Group and LFMC, an associate, are summarised as follows:

	Notes	2009 RMB'000	2008 RMB'000
Sale of raw materials and components	(i)	**—**	6,512
Purchases of raw materials and components	(ii)	**—**	4
Interest paid for customer deposits	(xiii)	**—**	3

46. RELATED PARTY TRANSACTIONS *(continued)*

(a) The significant transactions carried out between the Group and the Holding group and related companies (fellow subsidiaries and associates of the Holding), during the year are summarised as follows: *(continued)*

During the year, ZHHRM and ZHAM carried out various transactions with Huatong. Particulars of these transactions are summarised as follows:

	Notes	2009 RMB'000	2008 RMB'000
Purchases of raw materials and components	(xv)	—	1,419
Rentals paid in respect of:			
Land	(xv)	—	1,380
Buildings	(xv)	—	9
Fee income received from support services	(xv)	—	943
Management fees paid	(xv)	—	280

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, if there no applicable market price for any such raw materials or components, cost plus a percentage mark-up in the range of 10% to 30%.

(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 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.

46. RELATED PARTY TRANSACTIONS *(continued)*

(a) The significant transactions carried out between the Group and the Holding group and related companies (fellow subsidiaries and associates of the Holding), during the year are summarised as follows: *(continued)*

Notes: (continued)

(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% (2008: 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 RMB17,647,000 (2008: approximately RMB17,209,000) 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 is charged at a rate ranging from 0.15% to 0.2% (2008: 0.15% to 0.2%) of the Company's net annual turnover and 0.4% (2008: 0.4%) of YLDC's net annual turnover.

(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 5.5% (subject to the tax rate imposed by the government of the PRC from time to time), on the rental charge and management fees.

46. RELATED PARTY TRANSACTIONS *(continued)*

(a) The significant transactions carried out between the Group and the Holding group and related companies (fellow subsidiaries and associates of the Holding), during the year are summarised as follows: *(continued)*

Notes: (continued)

(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 5.5% (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 of plant and machinery were conducted under mutually agreed terms.

(xii) The interest income related to the bills discounting service rendered by and the loans granted by FTGF to members of the Holding group. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.

(xiii) The interest paid for customer deposits relates to the customer deposits placed in FTGF by the Holding and its subsidiaries and associates. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.

(xiv) The service charge for a guarantee relates to the service charge paid by a subsidiary of the Holding for the guarantee provided by FTGF. Pursuant to the relevant agreement, the pricing of the service charge is approximately 1% of the guarantee amount with reference to the relevant service fees charged by other licensed financial institutions in Mainland China.

(xv) These transactions were conducted according to the prices and conditions mutually agreed between the Group and its minority shareholder.

46. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2009, the Holding has placed an aggregate amount of approximately RMB67,500,000 (2008: RMB46,800,000) with FTGF to provide entrusted loans to the fellow subsidiaries and an associate of the Holding.

As at 31 December 2009, no designated deposit has been placed (2008: RMB2,000,000) by Yituo International Commerce Company Limited, a subsidiary of the Holding, with FTGF for lending to a third party.

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 Group's consolidated financial statements.

(ii) Guarantees provided/assets pledged by related parties to the Group

At 31 December 2009, no guarantee has been provided by the Holding (2008: approximately RMB50,000,000) to a bank for securing the banking facilities granted to the Company. As at 31 December 2008, the aforesaid banking facilities were utilised to the extent of approximately RMB50,000,000.

Certain of the Group's bank loans are secured by certain of the Holding's land use rights, at nil consideration.

Certain of the Group's bank loans are secured by the prepaid operating leases of a minority shareholder, at nil consideration.

46. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from/to the Holding, and the Group's loan to and deposits from the Holding as at the end of reporting period are disclosed in Notes 21, 23, 24, 25, 30, 31 and 33 to the 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 23 and 33 to the financial statements, respectively.

(iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding) as at the end of the reporting period are disclosed in Notes 21, 23, 24, 25, 30, 31 and 33 to the financial statements.

(iv) Details of the Group's amounts due from/to the minority shareholders as at the end of the reporting period are disclosed in Note 31 to the financial statements.

(d) Compensation of key management personnel of the Group

	2009	2008
	RMB'000	*RMB'000*
Short term employee benefits	**1,343**	1,352
Post-employment benefits	**268**	270
Total compensation paid to key management personnel	**1,611**	1,622

Further details of directors' emoluments are included in Note 9 to the financial statements.

47. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 9 March 2010, the Board passed a resolution and authorised the Group to dispose of its assets in relation to the harvester manufacturing business to Luoyang Zhongshou Machinery & Equipment Co., Ltd. Up to the date of approval of the financial statements, the transaction is still in progress.