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)

Annual Report 2010

YTO Industrial Zone

CONTENTS

CORPORATE INFORMATION

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BUSINESS REGISTRATION NUMBER
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LEGAL REPRESENTATIVE OF THE COMPANY
Zhao Yanshui

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
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Bank of Communications
China Construction Bank
Bank of China
China Everbright Bank
Agricultural Bank of China

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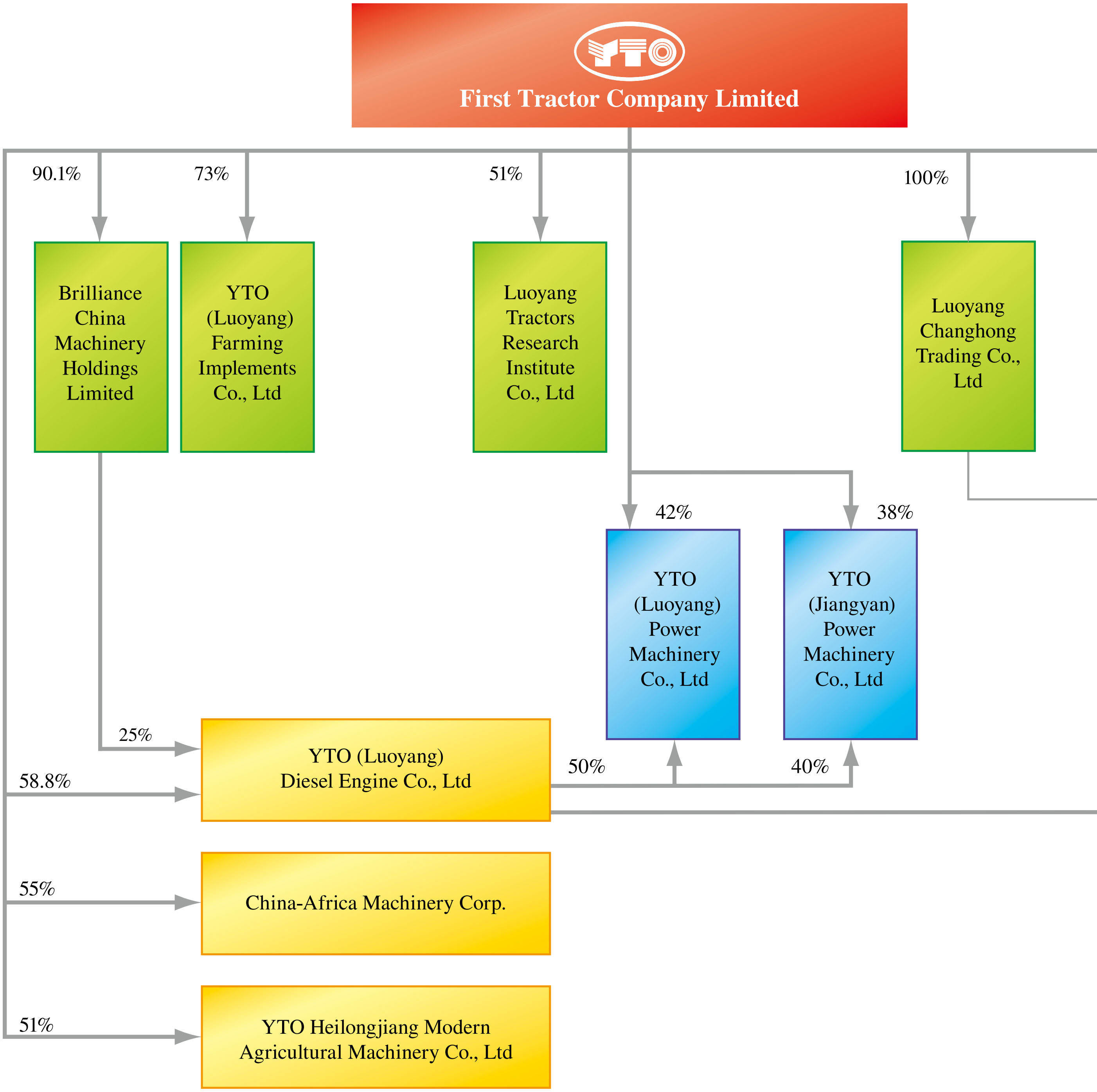
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
REVENUE	**10,132,335**	9,004,986
Finance costs	**(27,205)**	(15,040)
Share of profits/(losses) of associates	**1,247**	(6,743)
Profit before income tax	**645,465**	367,196
Income tax expense	**83,594**	(85,284)
PROFIT FOR THE YEAR	**561,871**	281,912
Profit attributable to:		
Equity holders of the Company	**542,361**	248,551
Non-controlling interests	**19,510**	33,361
	561,871	281,912
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		
Basic and diluted earnings per share	**RMB64.12 cents**	RMB29.28 cents

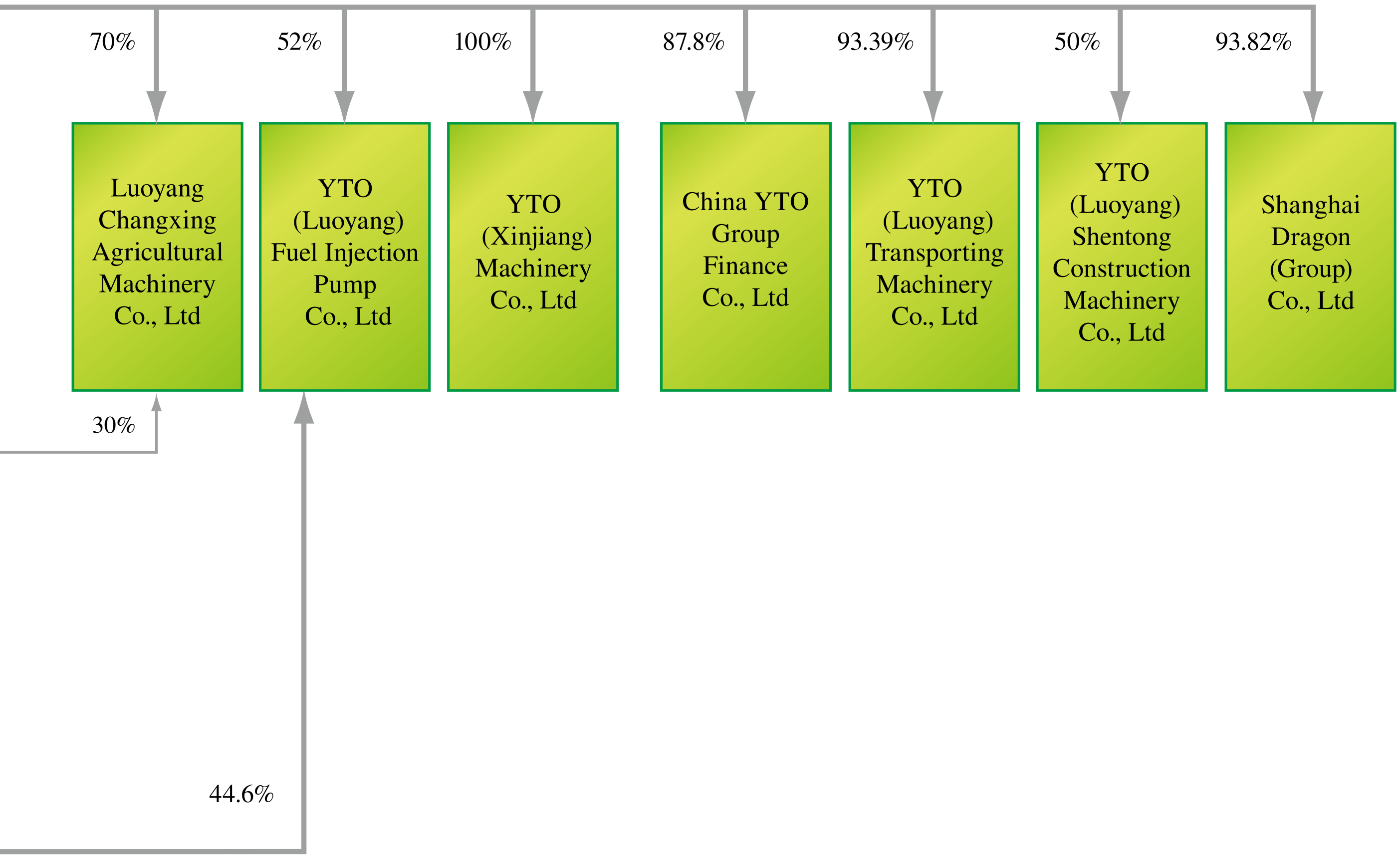
Note: "Restated" represents retrospective adjustment was made to 2009 figures in accordance with the requirements of standards on business combination under common control.

CORPORATE STRUCTURE

Structure of First Tractor Company Limited



CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

Zhao Yanshui
Chairman

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 2010 (the "**Reporting Period**") for your review.

BUSINESS REVIEW

In 2010, benefiting from the positive effects arising from the State's further implementation of the policies designed to support and benefit farmers, the agricultural machinery industry maintained its steady growth. The Group continued to focus on construction of its core capacity, vigorously pressed ahead with its structural adjustment, proactively implemented business reorganization, optimized resources allocation on an ongoing basis, and improved its management capacity in an effective way, which all together enabled achievement of a steady and rapid growth of the Group.

During the Reporting Period, sales of the Group's main products such as hi-powered and mid-powered wheeled tractors and diesel engines all maintained satisfactory growth momentum. The Group sold 71,823 units of hi-powered and mid-powered tractors, representing a year-on-year increase of 17.9%; sold 147,385 units of diesel engines in different types, representing a year-on-year increase of 11.6%, of which 91,002 units were sold to external customers, representing a year-on-year increase of 10.2%. The financial performance of the construction machinery business saw a visible upturn as compared with that last year. During the Reporting Period, the Group recorded a revenue of RMB10,132,335,000, representing a year-on-year increase of 12.5%. Profit attributable to equity holders of the parent amounted to RMB542,361,000, representing a year-on-year increase of 118.2%. Earnings per share was RMB0.6412, up RMB0.3474 over the same period last year.

Significant progress in products research and development and in key projects construction. In October 2010, the first power shift transmission hi-powered tractor of autonomic intellectual property rights in China, which reached the current international technological standards on the mainstream products, debuted in the Company, putting an end to the history that China was unable to produce power shift transmission tractors, indicating that China's capacity for making tractors has come near the advanced standards in the world and also marking a breakthrough in the project of "Research and Manufacture of Multi-functional Agricultural Equipment and Facilities" under the National Science & Technology Support Program of the State's "Eleventh Five-Year Plan". In respect of the project on hi-powered and efficient farm equipment and implement launched by the Company and its foreign partners under strategic cooperation, assembly and verification for local production have commenced on the basis of matching experiments and adaptability improvement. The production line for hi-powered tractors, which is a key construction project and represents the highest technological standard in China, has been completed and put into operation. The project on hi-powered diesel engines (Phase I) and the project on YTO Xinjiang agricultural assembly station (Phase I) were completed and will be put into operation in 2011.

A great step forward in business reorganisation. In order to further concentrate on the principal business and eliminate the business competition with China National Machinery Industry Corporation (中國機械工業集團有限公司) ("**Sinomach**"), the ultimate controller of the Company, the Company sold its equity interests in some of its subsidiaries engaged in the construction machinery business and withdrew from the construction machinery business of road rollers, bulldozers and loaders to optimize the resources allocation. Meanwhile, in order to improve the industrial chain of the Company and improve its research and development capabilities, the Company acquired 51% equity interests in Luoyang Tractors Research Institute Co., Ltd (洛陽拖拉機研究所有限公司) ("**Tractors Research Company**") from its controlling shareholder, YTO Group Corporation (中國一拖集團有限公司) ("**YTO**"). The relevant reorganizations were completed during the Reporting Period.

Continuous improvement in corporate governance structure and governance mechanism. During the Reporting Period, with a view to further perfecting the Company's legal person governance structure and strengthening the decision-making function of the Board, the Board set up the Strategy & Investment Committee of the Board and the Nomination Committee of the Board, and approved the Detailed Work Rules for the Strategy & Investment Committee of the Board and the Detailed Work Rules for the Nomination Committee of the Board. At present, the Board has four professional committees, namely, Strategy & Investment Committee (the "**Strategy & Investment Committee**"), Nomination Committee (the "**Nomination Committee**"), Audit Committee (the "**Audit Committee**") and Remuneration Committee (the "**Remuneration Committee**"). The chairmen of the Nomination Committee, Audit Committee and Remuneration Committee are all independent non-executive Directors. At the same time, for the purposes of establishing an effective governance mechanism and ensuring the general meeting, the Board, the board (the "**Board of Supervisors**") of supervisors (the "**Supervisors**") and the senior management of the Company operate with discipline, the Company formulated and perfected the policies on corporate governance and management such as the Detailed Work Rules for the General Manager, the Work Rules for the Secretary to the Board and the Administrative Measures on Information Disclosure, which were all approved by the Board for implementation.

During the Reporting Period, Mr. Liu Dagong, due to reallocation of work, resigned as the Chairman and executive Director. The Board accepted the resignation of Mr. Liu Dagong and elected me as the Chairman on 26 November 2010. While well aware of the grave responsibilities on my shoulders, I'm confident that, with the support of the Board, the Board of Supervisors, the management and all our staff of the Company, the Company will maintain its continuous and steady development. I would like to express my heartfelt gratitude to Mr. Liu Dagong for the contributions he has made to the Company when acting as the Chairman and executive Director, and wish him all the best.

I am also grateful for the gracious support from all shareholders, the full cooperation from all members of the Board and the Board of Supervisors and devoted efforts from all the staff!

PROSPECTS

In 2011, the beginning year of the "Twelfth Five-Year Plan", the Group will still be exposed to an external environment featuring a mix of opportunities and challenges. On one hand, the world's economy will continue to recover in a slow pace and China's economy has already returned to a normal development state after the crisis; the Chinese government will maintain consistent and stable macro-economic policies, continue to adopt proactive fiscal policies, increase the main expenses in relation to the issues of "agriculture, countryside and farmers" together with implementation of the favourable policies such as the Opinion On Promoting Agricultural Mechanization As Well As Rapid And Healthy Development Of Agricultural Machinery Industry" (《關於促進農業機械化和農機工業又好又快發展的意見》), all these factors will facilitate the growth of the Group's core business — the agricultural machinery business. On the other hand, recovery of the world's economy is still fragile that there are still instability and uncertainties. The Chinese government will shift its monetary policy from loose to prudent, adding difficulties to enterprises in fund raising. Prices of bulk commodities are likely to fluctuate, making it more difficult for the enterprises to control production costs. Furthermore, the increasing new players in the agricultural machinery industry will bring in more keen competition.

In face of the complex external environment, the Group will, in accordance with the law of scientific development, firmly hold to its development philosophy and innovate its development mode; leveraging on the acquisition of the assets related to transmission of tractors in France as well as the research and development of high efficiency farm equipment and implement in cooperation with foreign companies for the purposes of expediting the upgrade of product technologies and manufacturing technologies. The Group will also proactively propel resources consolidation to continuously improve the Company's industrial chain and competitiveness, so as to provide users with integrated solutions and consolidate the leading position of the Company in the domestic agricultural machinery industry, striking for becoming a renowned international agricultural equipment supplier. By fully taking advantage of the technology experience and speeding up technology upgrade and quality improvement of diesel engine products, the research and development range of auxiliary products in the market will be expanded and the commercialization process will be accelerated while catering for the demands for ancillary agricultural equipment.

CHAIRMAN'S STATEMENT *(continued)*

In the new year, the Group will adhere to focusing on construction of its core capacity, step up its efforts for market development, enhance its competitiveness in the marketplace, foster technological innovation and improve corporate autonomic innovative capability, strengthen mechanism for innovation, and endeavour to maintain sustained and stable development of the Group with a view to rewarding the shareholders with better performance whilst benefiting our staff and contributing to the society.

Zhao Yanshui
Chairman

Luoyang, the PRC
25 March 2011

Hi-powered wheeled tractor

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF PRINCIPAL BUSINESSES

By segment	Revenue			Segment results		
	2010	2009	% of change	**2010**	2009	% of change
	RMB'000	*RMB'000*	over last year	***RMB'000***	*RMB'000*	over last year
		(Restated)			(Restated)	
Agricultural machinery business	**8,010,095**	6,845,261	17.0	**254,647**	204,695	24.4
Construction machinery business	**851,065**	922,508	-7.7	**37,464**	(68,170)	—
Power machinery business	**1,225,215**	1,203,963	1.8	**179,900**	173,213	3.9
Financial business	**45,960**	33,254	38.2	**37,058**	33,376	11.0
Unallocated and eliminations	**—**	—	—	**136,396**	24,082	—
Total	**10,132,335**	9,004,986	12.5	**645,465**	367,196	75.8

Note: "Restated" represents retrospective adjustment was made to 2009 figures in accordance with the requirements of standards on business combination under common control.

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

AGRICULTURAL MACHINERY BUSINESS

In 2010, despite being affected by various adverse factors such as increase in raw material price, rise in labor cost and delay in implementation of the State's subsidy project for the purchase of agricultural machineries, thanks to the State's favorable policies such as its continuous increase in the subsidies for the purchase of agricultural machineries, China's agricultural machinery industry still witnessed rapid growth momentum. The gross output value of the agricultural machinery industry reached approximately RMB 283,800 million, representing a year-on-year increase of 26.4%. The comprehensive mechanization rate in cultivation, planting and harvesting reached approximately 52%, approximately 3.2 percentage points higher than that in 2009. According to the statistics from China's tractor industry, during the Reporting Period, 318,001 units of hi-powered and mid-powered tractors were sold in the country, representing a year-on-year increase of 12.1%, and 317,738 units of low-powered tractors were sold, representing a year-on-year decrease of 4.7 percentage points. As driven by the gradual recovery in the demand from the international market, the export of agricultural machineries, especially hi-powered and mid-powered tractors, recorded a year-on-year increase of approximately 21.4%.

Production line for hi-prowered wheeled tractors

During the Reporting Period, by riding on the growth of the domestic agricultural machinery industry, taking the corporate development from the overall perspective by upgrading its product quality and perfecting its sales mechanism, standing on the track of seeking breakthroughs in its core technologies for the main products technology upgrade, the Group successfully developed the power shift transmission hi-powered tractor of autonomic intellectual property rights which meets the current international technological standards on mainstream products. This made the Group well prepared to satisfy the market demand in domestic key regions, put an end to the market monopoly of international agricultural machinery giants on tractors over 200 horsepower and ushered in a new round of upgrade in the equipment of the agricultural machineries in China. In addition, the production line for hi-powered wheeled tractors with the highest standard in China was completed and put into operation. During the Reporting Period, the Group sold 71,823 units of hi-powered and mid-powered tractors, representing a year-on-year increase of 17.9%, among which 43,927 units were hi-powered wheeled tractors, representing a year-on-year increase of 19.9%, maintaining its leadership in the industry; 25,165 units of mid-powered wheeled tractors were sold, representing a year-on-year increase of 15.1%, showing the economy of scale and the entry to the rapid growth stage; 2,731 units of crawler tractors were sold, representing a year-on-year increase of 11.7%; 38,771 units of low-powered wheeled tractors were sold, representing a year-on-year decrease of 21%.

During the Reporting Period, operating revenue from the agricultural machinery business amounted to RMB8,010,095,000, representing a year-on-year increase of 17%. Operating results amounted to RMB254,647,000, representing a year-on-year increase of RMB49,952,000 or 24.4%. Consolidated gross profit of the agricultural machinery business amounted to RMB974,709,000, representing a year-on-year increase of RMB164,776,000. Gross profit margin was 11.31%, representing a year-on-year increase of 0.31 percentage points.

CONSTRUCTION MACHINERY BUSINESS

During the Reporting Period, as driven by the robust domestic demand and the booming infrastructure construction, the domestic construction machinery industry witnessed a rapid growth of over 20%.

During the Reporting Period, by riding on the industry growth and through flexible sales plans, enhanced product promotion and effective utilization of finance lease, the Group achieved a substantial growth in the sales of its main products. 1,183 units of forklift trucks and 426 units of mining trucks were sold, representing a year-on-year increase of 121.5% and 204.3% respectively; the sales of compact construction machineries (compact crawler excavators and compact loaders) were 1,881 units, representing a year-on-year decrease of 21.6%.

In consideration of the weak overall profitability, over-diversification in products and scattered resources of the Group's construction machinery business as well as to avoid business competition with Sinomach (the ultimate controller of the Company), the Group, while improving its management and putting more efforts in marketing, conducted reorganization of the assets and business of its construction machinery business and disposed 100% equity interests (the "**Selling Interests**") in YTO (Luoyang) Construction Machinery Sales Co., Ltd (一拖(洛陽)工程機械銷售有限公司) ("**YTO Machinery Sales**") and YTO (Luoyang) Jiangong Machinery Co., Ltd (一拖(洛陽)建工機械有限公司) ("**YTO Jiangong**") to YTO, the controlling shareholder of the Company, which were completed in the second half of 2010.

During the Reporting Period, operating revenue from the construction machinery business was RMB851,065,000, representing a year-on-year decrease of 7.7%, which was mainly because the Company ceased to consolidate the financial statements of YTO Machinery Sales and YTO Jiangong upon completion of the disposal of the Selling Interests. During the Reporting Period, operating results was RMB37,464,000, turning decrease to an increase of profits of RMB105,634,000 as compared with that in the same period last year.

POWER MACHINERY BUSINESS

During the Reporting Period, as the State non-road machinery shifted to the National II Emission Standards, the Group achieved full upgrade in its technical standards which meets the National II Emission Standards through differentiated technical research and development as well as increased investment in technological renovation. In particular, the research and development in new products and the manufacturing technology achieved positive progress with 6H series diesel engines being launched to the market in small batches whilst K series diesel engines successfully completing all relevant experiments and the technology renovation project on hi-powered diesel engines progressing smoothly. At the same time, in order to accommodate the needs of long-term development of the power machinery business, the Group set up YTO (Jiangyan) Power Machinery Co., Ltd (一拖(姜堰)動力機械有限公司) ("**Jiangyan Power**") in Jiangyan City, Jiangsu Province, China during the Reporting Period.

During the Reporting Period, 147,385 units of diesel engines in different types were sold in the power machinery business, representing a year-on-year increase of 11.6%, of which 91,002 units were sold to the non-member customers of the Group, representing a year-on-year increase of 10.2%. The revenue amounted to RMB1,225,215,000, representing a year-on-year increase of 1.8%. Consolidated gross profit margin for the power machinery business was 20.17%, basically unchanged as compared with that in 2009. Operating results of the power machinery business amounted to RMB179,900,000, representing a year-on-year increase of 3.9%.

Production line for components of diesel engines

FINANCIAL BUSINESS

Financial business of the Group mainly involves provisions of businesses including internal transfer and settlement, deposit and loan, bills discounting, finance lease, buyer credit for products and entrusted loan by YTO Group Finance Co., Ltd (中國一拖集團財務有限責任公司) ("**YTO Finance**"), a subsidiary of the Company, to YTO and its business members (including the Group and its subsidiaries and non-wholly owned subsidiaries in which the Group holds 20% or more shareholdings). YTO Finance is an important platform for centralised internal capital management within the Group.

During the Reporting Period, YTO Finance placed a close eye on risk prevention and mitigation and actively adopted effective measures to reduce non-performing assets. The non-performing loan ratio reduced to zero and the assets quality was further improved. During the Reporting Period, the Group recorded operating revenue from the financial business amounting to RMB45,960,000, representing a year-on-year increase of 38.2%, and recorded operating results amounting to RMB37,058,000, representing a year-on-year increase of 11%.

ANALYSIS OF FINANCIAL RESULTS

1. Operating Revenue

During the Reporting Period, the Group recorded operating revenue of RMB10,132,335,000, representing a year-on-year increase of 12.5%, of which that from the agricultural machinery business grew 17%, accounted for 79.06% of the Group's operating revenue and represented a year-on-year increase of 3.04 percentage points. As the Company disposed of the equity interests in some of its subsidiaries during the Reporting Period, revenue from the construction machinery business accounted for 8.4% of the Group's operating revenue, representing a year-on-year decrease of 1.84 percentage points. Revenue from the power machinery business accounted for 12.09% of the Group's total operating revenue, representing a year-on-year decrease of 1.28 percentage points. Revenue from the financial business accounted for 0.45% of the Group's operating revenue, representing a year-on-year increase of 0.08 percentage point.

2. Gross profit and gross profit margin

During the Reporting Period, consolidated gross profit of the Group was RMB1,462,943,000, representing a year-on-year increase of 13.7%. Consolidated gross profit margin was 14.44%, increasing by 0.15 percentage points as compared with that last year.

3. Other income and gains

During the Reporting Period, the Group recorded other income and gains of RMB214,007,000, representing a year-on-year increase of RMB131,697,000, which is mainly attributable to the disposal of certain construction machinery business and the merger of Shanghai Dragon (Group) Co., Ltd (上海強農(集團)股份有限公司) ("**Shanghai Dragon**").

4. Period expenses

During the Reporting Period, the period expenses of the Group amounted to RMB1,032,732,000, representing a year-on-year increase of 3.78%.

Expenses	**2010** ***RMB'000***	2009 *RMB'000* (Restated)
Selling and distribution costs	**340,222**	297,962
Administrative expenses	**617,861**	621,071
Other operating expenses	**47,444**	61,080
Finance cost	**27,205**	15,040

(1) **The selling and distribution costs**: As compared with that in the same period in 2009, the selling and distribution costs recorded an increase of 14.18%, which was slightly higher than the growth of the operating revenue. This was mainly due to the sales growth of the Group during the Reporting Period resulting in an increase in the expenses of three warranties (refund, replacement and repair) and sales services as well as the wage increase resulting in an increase in labor cost. The selling and distribution costs represented approximately 3.36% of the operating revenue.

(2) **Administrative expenses**: As compared with that in the same period in 2009, the administrative expenses represented a decrease of RMB3,210,000 or 0.52%. This was mainly because, during the Reporting Period, the Group put great effort to enhance internal control. Given more input in research and development as well as the increased research and development expenses of RMB26,119,000, the controllable expenses were substantially decreased.

(3) **Other operating expenses**: As compared with that in the same period in 2009, other operating expenses recorded a decrease of RMB13,636,000 or 22.32%, which was mainly due to the disposal of certain construction machinery business and assets by the Group during the Reporting Period, thereby improving the asset structure and decreasing the asset impairment.

(4) **Finance costs**: As compared with that in the same period in 2009, the Finance costs recorded an increase of RMB12,165,000 or 80.88%, which was mainly because, in order to cope with the delay in payment of the State's subsidies for the purchase of agricultural machineries, the ratio of bills receivables to capital increased, and the Group obtained more bank loans, causing an increase in capital cost.

5. Income tax

During the Reporting Period, the Group put more effort in research and development, resulting in an increase in the pre-tax deductible expenses for tax purpose. The income tax expenses amounted to RMB83,594,000, representing a year-on-year decrease of RMB1,690,000.

ASSETS AND LIABILITIES

1. Analysis on assets

As at 31 December 2010, the Group's total assets amounted to RMB8,193,336,000 (31 December 2009: RMB5,885,512,000).

(1) **Non-current assets:** As at 31 December 2010, the Group's total non-current assets amounted to RMB2,427,802,000 (31 December 2009: RMB1,675,225,000). The major items of non-current assets are as follows:

	31 December 2010 *RMB'000*	31 December 2009 *RMB'000*	Increase/ (decrease) *RMB'000*
Property, plant and equipment	**1,814,315**	1,221,258	593,057
Prepaid operating leases	**190,062**	76,689	113,373
Investment properties	**35,302**	—	35,302

Property, plant and equipment: As at 31 December 2010, the Group's property, plant and equipment recorded a year-on-year increase of RMB593,057,000, which was mainly due to more investment in fixed assets for enhancement of productivity during the Reporting Period, the main projects of which include the construction project on hi-powered diesel engines, technology renovation project on hi-powered wheeled tractors, construction project on Xinjiang agricultural equipment, project on production capacity expansion for mid-powered wheeled tractors, etc..

Prepaid operating leases: This item represents the amounts paid by the Group in respect of land use rights. As at 31 December 2010, the prepaid operating leases recorded a year-on-year increase of RMB113,373,000, which was mainly due to the increase in land use rights as a result of combination of the financial statements of Tractors Research Company.

Investment properties: This item represents the properties owned by Shanghai Dragon, a subsidiary of the Company, for leasing purposes. Details of the investment properties are set out in Note 16 to the Consolidated Financial Statements in this Annual Report.

(2) **Current assets:** As at 31 December 2010, the Group's total current assets amounted to RMB5,765,534,000. The major items of current assets are as follows:

	31 December 2010 *RMB'000*	31 December 2009 *RMB'000* (Restated)	Increase/ (decrease) *RMB'000*
Cash and cash equivalents	**1,162,162**	929,060	233,102
Pledged deposits[1]	**175,728**	294,197	(118,469)
Trade and bills receivables	**1,537,778**	894,782	642,996
Inventories	**1,329,527**	1,023,871	305,656
Placements with banks and non-bank financial institutions[2]	**350,000**	0	350,000

Notes: 1 Pledged deposits represent the guarantee deposits paid to the banks for acquiring bank acceptance bills.

2. All placement counterparties of the Group are banks and non-bank financial institutions located in the PRC.

Cash and cash equivalents: As at 31 December 2010, the Group's current cash and cash equivalents recorded a year-on-year increase of RMB233,102,000, of which RMB192,072,000 was owned by the Company and the remaining was owned by the subsidiaries of the Company.

Pledged deposits: As at 31 December 2010, the Group's pledged deposits represented a year-on-year decrease of RMB118,469,000, which was mainly due to the upgrade of the Group's credit rating, thereby leading to a lower ratio of the guarantee deposits paid to the banks for bank acceptance bills.

Trade and bills receivables: As at 31 December 2010, the Group's trade and bills receivables amounted to RMB1,537,778,000, representing a year-on-year increase of RMB642,996,000, of which trade receivables increased by RMB69,250,000 to RMB568,560,000 and bills receivables increased by RMB573,746,000 to RMB969,218,000. The increase was mainly due to the delay in payment of the State's subsidies for the purchase of agricultural machineries, and that the Group used more bills for settlement so as to better control capital cost and reduce capital risk.

During the Reporting Period, turnover days of trade receivables of the Group were 24 days, which was 5 days shorter as compared with that last year.

Inventories: As at 31 December 2010, the Group's inventories amounted to RMB1,329,527,000, representing a year-on-year increase of RMB305,656,000, which was mainly due to the increased reserve of work-in-process and finished products in order to meet the burst of market demand in the peak sale season in early 2011.

During the Reporting Period, the Group's inventory turnover days were 51 days, which was 2 days longer as compared with that last year.

Placements with banks and non-bank financial institutions: As at 31 December 2010, the Group had placements with banks and non-bank financial institutions of RMB 350,000,000, which was mainly due to the short-term capital surplus of the Group at the end of December 2010 and placements by YTO Finance with accredited members of National Inter-bank Funding Center in an aggregate amount of RMB350,000,000 for a term up to 14 days. In mid January 2011, the placements were recovered in full as scheduled. Details of the placements with banks and non-bank financial institutions are set out in Note 29 to the Consolidated Financial Statements in this Annual Report.

2. Analysis on liabilities

As at 31 December 2010, the Group's total liabilities amounted to RMB4,715,013,000 (31 December 2009: RMB2,846,609,000), including current liabilities of RMB3,905,113,000 (31 December 2009: RMB2,629,703,000). The major items of liabilities include:

	31 December 2010 ***RMB'000***	31 December 2009 *RMB'000* (Restated)	Increase/ (decrease) *RMB'000*
Short-term borrowings	**405,258**	143,000	262,258
Trade and bills payables	**1,996,330**	1,680,880	315,450
Long-term borrowings	**600,000**	0	600,000
Placements from banks and non-bank financial institutions [1]	**100,000**	0	100,000
Repurchase agreements	**99,500**	0	99,500

Note : 1. All placement counterparties of the Group are banks and non-bank financial institutions located in the PRC.

Short-term borrowings and long-term borrowings: As at 31 December 2010, the Group's short-term borrowings recorded a year-on-year increase of RMB262,258,000. This was mainly because, given the increased ratio of trade receivables to capital for the year, the Company increased loans for working capital so as to relieve the capital pressure on procurement arising from the rapid growth in sales. Meanwhile, in order to meet the Company's need for capital expenses, the Company increased long-term borrowings of RMB600,000,000.

Details of the effective interest rates and repayment status of the short-term borrowings and long-term borrowings are set out in Note 36 to the Consolidated Financial Statements in this Annual Report.

Trade and bills payables: As at 31 December 2010, the Group's trade and bills payables amounted to RMB1,996,330,000, representing a year-on-year increase of RMB315,450,000, of which bills payable represented a year-on-year increase of RMB16,373,000, which is mainly attributable to the increased use of bills with a view to reducing the capital pressure over currency; and trade payables represented a year-on-year increase of RMB299,077,000, which was mainly due to the increased purchase of raw materials and components so as to meet the burst of market demand in the peak sale season in early 2011.

Placements from banks and non-bank financial institutions: As at 31 December 2010, the Group had placements from banks and non-bank financial institutions of RMB100,000,000, which mainly represents the capital placed from the accredited members of National Inter-bank Funding Center in an amount of RMB100,000,000 at the end of December 2010 for a term up to 7 days as previously agreed between YTO Finance and them, in order to meet the capital needs by the Group for production and operation at the end of December 2010. In early January 2011, the placements were repaid in full as scheduled. Details of the placements from banks and non-bank financial institutions are set out in Note 35 to the Consolidated Financial Statements in this Annual Report.

Repurchase agreements: As at 31 December 2010, the Group had repurchse agreements in an amount of RMB99,500,000, which mainly represents the capital raised by YTO Finance from the accredited members of National Inter-bank Funding Center as previously agreed between YTO Finance and them by way of pledging certain debt securities held by YTO Finance with carrying amount of RMB99,500,000 for a short-term financing in order to meet its capital needs at the year end. YTO Finance shall repay the loans upon expiry of the financing term and recover the pledged debt securities. The term for financing and repurchase was not more than 14 days. In early January 2011, YTO Finance repurchased the debt securities and repaid the loans as scheduled. Details of the repurchase agreements are set out in Note 34 to the Consolidated Financial Statements in this Annual Report.

3. Indicators of financial ratio

Items	**Basis of calculation**	**31 December 2010**	31 December 2009 (Restated)
Gearing ratio	Total liabilities/total assets x 100%	**57.55%**	48.37%
Current ratio	Current assets/current liabilities	**1.48**	1.60
Quick ratio	(Current assets — inventories)/current liabilities	**1.14**	1.21
Debt equity ratio	Total liabilities/shareholders' equity# x 100%	**152.94%**	101.44%

#*Note:* Shareholders' equity excludes minority interests.

As at 31 December 2010, the gearing ratio of the Group was 57.55%, representing a year-on-year increase of 9.18 percentage points, which was mainly due to the increased utilization of financial leverage by the Group on the premise that the liquidity of assets is guaranteed.

4. Capital structure

As at 31 December 2010, the total equity of the Group amounted to RMB3,478,323,000, of which equity attributable to equity holders of the Company was approximately RMB3,082,948,000, and the remaining was minority interests.

Analysis of equity and reserves

Items	**31 December 2010** *RMB'000*	31 December 2009 *RMB'000*	Change in amount Increase/ (decrease) *RMB'000*
Share capital	**845,900**	845,900	—
Reserve	**2,169,376**	1,858,841	310,535
Proposed final dividend	**67,672**	101,508	(33,836)
Total	**3,082,948**	2,806,249	276,699

During the Reporting Period, there was no change in the issued share capital of the Company, which remained to be RMB845,900,000.

As at 31 December 2010, the Group's reserve amounted to RMB2,169,376,000, representing a year-on-year increase of RMB310,535,000, which was mainly due to the effects from events including the operation accumulation for the year and business combination under common control (acquisition of Tractors Research Company), etc..

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

1. Incorporation of Jiangyan Power

In January 2010, the Company, YTO (Luoyang) Diesel Engine Co., Ltd (一拖(洛陽)柴油機有限公司) ("**YTO Diesel**"), a subsidiary of the Company, and Jiangsu Jiangyan Industrial Assets Management Co., Ltd (江蘇省姜堰市工業資產經營有限公司) ("**Jiangyan Assets Management**") jointly set up Jiangyan Power in Jiangyan City, Jiangsu Province, China with a registered share capital of RMB100,000,000, of which the Company contributed RMB38,000,000, holding 38% equity interests in Jiangyan Power; YTO Diesel contributed RMB40,000,000, holding 40% equity interests in Jiangyan Power; and Jiangyan Assets Management contributed RMB22,000,000, holding 22% equity interests in Jiangyan Power. Jiangyan Power is principally engaged in the manufacture and sales of light diesel engines and accessories.

2. Acquisition of equity interests in Shanghai Dragon

Prior to acquisition of the equity interests, the Company had a stake in Shanghai Dragon. In order to build a business development platform of the Group in Shanghai, China, the Company and Shanghai Materials (Group) Corporation (上海物資(集團)總公司) ("**Shanghai Materials**") entered into the Agreement on Equity Transaction on 2 April 2010 to acquire 35.85% equity interests in Shanghai Dragon as held by Shanghai Materials on the Shanghai Equity Exchange at a consideration of RMB21,164,000, which was completed in the second half of 2010. As at 31 December 2010, the Company owned 93.82% equity interests in Shanghai Dragon. Shanghai Dragon is principally engaged in property lease, trade of agricultural machinery, etc..

3. Disposal of the equity interests in subsidiaries of the construction machinery business

On the basis of the internal reorganization of the Group's construction machinery business in June 2010, on 28 June 2010, the Company entered into the Agreement on Disposal of Equity Interests (the "**Agreement on Disposal of Equity Interests**") with YTO to sell 100% equity interests in each of YTO Machinery Sales and YTO Jiangong to YTO. Upon completion of the disposal, the Group withdrew from the businesses of road rollers, bulldozers, loaders and hydraulic crawler excavators. The transfer of the equity interests was completed in the second half of 2010.

Details of the Agreement on Disposal of Equity Interests are set out in the paragraph headed "Disposal of interests in YTO Machinery Sales and YTO Jiangong and provision of financial assistance" on page 48 of this Annual Report.

4. Acquisition of 51% equity interests in Tractors Research Company

On 3 August 2010, the Company entered into the Agreement on Acquisition of Equity Interests (the "**Agreement on Acquisition of Equity Interests**") with YTO to acquire 51% equity interests in Tractors Research Company held by YTO. The consideration for the transfer of the equity interests is approximately RMB155,333,000. The transfer of the equity interests was completed in the second half of 2010. Upon completion of the acquisition, Tractors Research Company became a non-wholly owned subsidiary of the Company and mainly provides daily technology services to and specific entrusted research and development for the Group.

Details of the Agreement on Acquisition of Equity Interests are set out in the paragraph headed "Acquisition of 51% equity interests in Tractors Research Company" on page 49 of this Annual Report.

INTERESTS IN ASSOCIATED COMPANIES

During the Reporting Period, Luoyang YTO Construction Vehicle Technology Co., Ltd (洛陽拖汽工程車輛科技有限公司) and I&C Technology Consulting Co., Ltd (洛陽意中技術咨詢有限公司) became associated companies of the Company as a result of the acquisition of the equity interests in Tractors Research Company by the Company.

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 RMB572,070,000, mainly including the construction project on hi-powered diesel engines, technology renovation project on hi-powered wheeled tractors, construction project on Xinjiang agricultural equipment, production capacity expansion project on mid-powered wheeled tractors, etc.

SIGNIFICANT INVESTMENT OR ACQUISITION OF CAPITAL ASSETS OF THE GROUP IN FUTURE

In 2011, the Group intends to invest RMB883,920,000, which will be mainly used for the project on hi-powered diesel engines, project on enhancement of autonomic research and development capacity and construction project on new-type hi-powered wheeled tractors, as well as technology renovation projects on hi-powered farm equipment and implement, mid-powered wheeled tractors and wheeled tractors with direct transmission, crankshaft processing lines, gear refined processing capacity as well as construction of parts and accessories centers and warehouses. The said investments will be mainly financed by bank loans and self-owned 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 the international business 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 debts were mainly applied to payment of commissions outside the PRC and dividends to holders of H shares of the Company. 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 were repaid out of the revenue received in Renminbi.

As at 31 December 2010, there was no pledge of any foreign currency deposit of the Group.

PLEDGE OF ASSETS

As at 31 December 2010, none of the Group's buildings and machineries were pledged (2009: buildings and machineries with the net book value of approximately RMB41,799,000 were pledged) to secure certain bank loans granted to the Group.

As at 31 December 2010, the Group's land use rights with the net book value of approximately RMB6,299,000 together with the land use rights of non-controlling equity shareholders (2009: the Group's prepaid land leases with the net book value of approximately RMB6,436,000 were pledged) were pledged to secure bank loans granted to the Group.

As at 31 December 2010, the Group's deposits of approximately RMB133,728,000 (2009: approximately RMB294,197,000) were pledged to secure the Group's bills payables of approximately RMB458,355,000 (2009: approximately RMB330,103,000).

CONTINGENT LIABILITIES

During the Reporting Period, the Company entered into the trade credit agreements (the "**Trade Credit Agreements**") with Bank of Communications Co., Ltd., China Everbright Bank and China Construction Bank Corporation (Henan Branch) (the "**Three Banks**") respectively for the purpose of cooperation in trade facilities. Pursuant to the Trade Credit Agreements, the Three Banks have agreed to grant to the Company the trade credit lines with a total amount of RMB900 million (the "**Trade Credit Line**"). The Trade Credit Line shall be specifically used by the dealers recommended by the Company or its authorized agents for applying to the Three Banks for issuance of the banks' acceptance bills for the purpose of purchasing the Group's products such as agricultural and construction machineries from the Company or its authorized agents. In return, the Company or its authorized agents shall provide guarantees in the form of an undertaking letter or agreement setting out the legal obligation for the Company's performance of its repurchase guarantee. As at 31 December 2010, the actual guarantee amount in respect of the Trade Credit Line undertaken by the Company totaled RMB268,560,000.

Save as disclosed above and in Note 47 to the Consolidated Financial Statements in this Annual Report, the Group had no other significant contingent liabilities as at 31 December 2010.

NUMBER OF STAFF, REMUNERATION POLICY AND STAFF TRAINING

As at 31 December 2010, the Group had a total of 11,060 staff members, of whom 6,218 were production staff, 815 were engineering technicians, 175 were financial staff, 1,014 were management staff, 862 were sales and marketing staff, 150 were service staff and 1,826 were others.

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 allowances. 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 learning and improving professional skills and provided strong support for the Group'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 Group's growth. During the Reporting Period, the Group organized a total of 492 various training courses with 10,218 individual training.

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

As at 31 December 2010, the biographical details of the Directors, Supervisors, joint company secretaries and senior management of the Company are set out below:

EXECUTIVE DIRECTORS

Mr. Zhao Yanshui, aged 47, joined China First Tractor Group (i.e. YTO, formerly known as YTO Construction Machinery Company and its subsidiaries) in 1983. Mr. Zhao was previously the section head, deputy factory manager, deputy chief engineer and deputy general manager of China First Tractor Group, the executive deputy general manager of the Company. Mr. Zhao served at the Company since 1997 and is currently the vice-chairman and general manager of YTO, the Chairman and executive Director of the Company, the Chairman of the Strategy & Investment Committee and a member of the Nomination Committee under the Board of the Company, as well as the deputy governor of Association of Construction Engineering Industry of China. Mr. Zhao has extensive experience in the fields of corporate management, strategic planning, product development and design and technology management. Mr. Zhao 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 degree, a master degree and a doctorate degree in engineering. From 1994 to 2001, he was a visiting scholar at Hokkaido University and Kyoto University. He holds the title of senior engineer with professorship.

Ms. Dong Jianhong, aged 44, joined China First Tractor Group in 1989. She was the deputy section chief, section chief, the deputy department head and the head of the Financial Department of China First Tractor Group, the deputy department head and department head of the Accounting Department, the chief accountant and Chief Financial Officer of the Company. Ms. Dong served at the Company since 1997 and is currently the chief accountant of China First Tractor Group, an executive Director and a member of the Remuneration Committee under the Board 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 studied at Zhengzhou University and Xi'an University of Technology and was awarded a bachelor degree in science and a master degree in engineering. She holds the title of senior economist.

Mr. Qu Dawei, aged 44, joined China First Tractor Group in 1988. He was the head of Technological Equipment Research Institute, the general manager of equipment and technology branch, the deputy general manager and general manager of Spares Division of China First Tractor Group, the executive deputy general manager and General Manager of the Company. Mr. Qu served at the Company since 2007 and is currently the deputy general manager of China First Tractor Group, the chairman of YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd (一拖(洛陽)開創裝備科技有限公司), an executive Director and a member of the Strategy & Investment Committee under the Board 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 studied at Jiaozuo Institute of Technology and Huazhong University of Science and Technology and was awarded a bachelor degree and a master degree in engineering. He holds the title of senior engineer.

Mr. Li Xibin, aged 53, had worked in Luoyang Tractors 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 the technology center, the factory manager of No. 2 Iron Foundry of China First Factor Group, the general manager of YTO (Luoyang) Diesel Engine Co., Ltd (一拖（洛陽）柴油機有限公司), and the general manager of YTO (Luoyang) Power Machinery Co., Ltd (一拖（洛陽）動力機械有限公司). He served at the Company since 2006 and was an executive Director and a deputy general manager of the Company during the Report Period. Mr. Li is currently the chairman of YTO (Luoyang) Diesel Engine Co., Ltd, YTO (Luoyang) Power Machinery Co., Ltd, YTO (Luoyang) Fuel Injection Pump Co., Ltd (一拖（洛陽）燃油噴射有限公司) and YTO (Jiangyan) Power Machinery Co., Ltd (一拖（姜堰）動力機械有限公司). Mr. Li is familiar with the internal combustion engine industry, and has extensive experience in the fields of corporate operation and management. Mr. Li studied at Jiangsu Polytechnic University and Wuhan University of Technology and was awarded a bachelor degree and a master degree in engineering and engineering science respectively. He holds the title of senior engineer with professorship.

NON-EXECUTIVE DIRECTORS

Mr. Yan Linjiao, aged 55, joined China First Tractor Group in 1982. He was the deputy workshop director, technical section chief, assistant chief engineer and deputy general manager of YTO (Luoyang) Diesel Engine Co., Ltd, the 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 served at the Company since 2004 and is currently a director and an executive deputy general manager of China First Tractor Group, a non-executive Director, a member of the Audit Committee and the Strategy & Investment Committee under the Board of the Company. Mr. Yan is familiar with design and manufacture of machinery with substantial experience in the fields of corporate management, production and operation. He studied at Luoyang Institute of Technology and Xi'an Jiaotong University and was awarded a bachelor degree and a master degree in engineering respectively. He holds the title of senior engineer.

Mr. Shao Haichen, aged 55, 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 the assistant to general manager, deputy general manger and general manager of the Company. Mr. Shao served at the Company since 1998 and was a non-executive Director of the Company during the Reporting Period. Mr. Shao is extensively experienced in the fields of preparation of productive technology as well as corporate operation and management. Mr. Shao graduated from Luoyang Institute of Technology in 1982 with a bachelor degree and later was awarded a master degree from Jiangsu University in 2003. He holds the title of senior engineer.

Mr. Liu Yongle, aged 54, joined China First Tractor Group in 1979 where he served as the deputy director of the Labour and Salary Division, manager of the personnel department, manager of the human resources department, assistant to general manager, deputy general manager and the chairman of Labour Union of China First Tractor Group. He served at the Company since 2009 and is currently the deputy party secretary of China First Tractor Group and a non-executive Director and member of the Remuneration Committee under the Board of the Company. Mr. Liu is familiar with affairs related to personnel, labour and salary, and has extensive experience in the fields of corporate management and personnel system reform. Mr. Liu studied in Party School of 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 57, joined China Development Finance Company (Hong Kong) Limited, a wholly-owned subsidiary of Bank of China in 1992 and acted as the head of Investment Banking Department and director and general manager 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 a director and general manager 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 the deputy chief executive officer, in charge of affairs related to listing, mergers and acquisitions. 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 31 years of working experience in investment banking and 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. Mr. Chan also attended the Financial Management Program of Stanford University, USA. Mr. Chan served at the Company since 1997 and is currently an independent non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee under the Board of the Company.

Mr. Luo Xiwen, aged 66, joined South China Agricultural University in 1982 where he served the positions of an associate professor, a professor and the head of Faculty of Agricultural Engineering, the dean and mentor of doctorate students of Faculty of Engineering Technique, the vice president of South China Agricultural University. He served at the Company since 2006 and is currently an independent non-executive Director, the chairman of the Remuneration Committee and the Nomination Committee under the Board of the Company, an Academician of Chinese Academy of Engineering, a professor of South China Agricultural University, the convener of Agricultural Engineering Division of Bachelor Committee under the State Council, the executive deputy governor of Chinese Society of Agricultural Engineers, the governor of Chinese Society for Agricultural Machinery, the deputy governor of the National Advanced Agricultural Education Research Institute, the deputy governor of Guangdong Society for Agricultural Machinery, the deputy editor-in-chief of Transactions of the Chinese Society of Agricultural Engineering, the editor of Transactions of the Chinese Society for Agricultural Machinery, a member of International Society for Terrain-Vehicle System (ISTVS), a member of International Soil Tillage Research Organization (ISTRO), a member of Asian Association for Agricultural Engineering (AAAE), and a member of American Society of Agricultural Engineers (ASAE). Mr. Luo graduated from South China Agricultural University in 1982 with a master degree and holds the title of professor.

Mr. Hong Xianguo, aged 47, 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, Animal Husbandry and Feed Processing Machinery Branch of China Association of Agricultural Machinery Manufacturers. From November 2001 to May 2006, Mr. Hong acted as the 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 served at the Company since 2009 and is currently an independent non-executive Director and a member of the Nomination Committee and the Remuneration Committee under the Board of the Company. 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 Institute of Technology with a bachelor degree in design and manufacture of agricultural machinery. He holds the title of senior engineer.

Mr. Zhang Qiusheng, aged 42, stayed in University of Colorado at Boulder in the Unites States as a senior visiting scholar in 1996. He has been a professor at the Accounting Department of the School of Economics and Management at Beijing Jiaotong University since 1999, and an instructor to doctorate candidates majoring in industrial economics, business management and accounting since 2000. From 2008 to 2009, Mr. Zhang took a temporary post as the Deputy Mayor of Liuzhou City, Guangxi Zhuang Autonomous Region（廣西壯族自治區）in the PRC. Mr. Zhang has been appointed as an expert consultant to China Accounting Standards Committee（財政部會計準則委員會）in respect of accounting standards, a council member of Accounting Society of China（中國會計學會）and a young academic pacemaker at Beijing Higher Education（北京市高等學校）, etc. Mr. Zhang provides professional services in financial accounting as well as mergers and acquisitions for the government and enterprises. Mr. Zhang served at the Company since 2010 and is currently an independent non-executive Director, a member of the Strategy & Investment Committee and the Audit Committee under the Board of the Company. Mr. Zhang currently is also a director of China Mergers & Acquisitions Research Centre（中國企業兼併重組研究中心）. an independent director of Yuyuan Holding Co., Ltd（玉源控股股份有限公司）, Beijing Dinghan Technology Co., Ltd.（北京鼎漢技術股份有限公司）and Beijing Saidi Media Investment Co,, Ltd.（北京賽迪傳媒投資股份有限公司）, all of which are companies listed on the Shenzhen Stock Exchange. Mr. Zhang studied at Beijing Jiaotong University from 1983 to 1992 and was awarded bachelor and master degrees in accounting and a doctorate degree in industrial economics. He was qualified as a Chinese Certified Public Accountant (CCPA) and a Chinese Certified Tax Agent (CCTA).

SUPERVISORS

Mr. Zheng Luyu, aged 57, joined China First Tractor Group in October 1989 where he held the posts of the officer, assistant to head and deputy head of the Department of Public Security, the head of the Armed Equipment Division, the officer to the Party Committee Office and to the General Office as well as an assistant to general manager of China First Tractor Group. Mr. Zheng served at the Company since 2006 and is currently the deputy secretary to the Party Committee and secretary to the Disciplinary Committee of China First Tractor Group as well as the chairman of the Board of Supervisors of the Company. Mr. Zheng has extensive experience in the fields of administration and supervision, legal matters and internal audit. He holds a title of senior political engineer with professorship.

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

Ms. Yi Liwen, aged 48, joined China First Tractor Group in 1986 where she served as the deputy section head, section head and office head of the Audit Department of China First Tractor Group. She served at the Company since 2009 and is currently the deputy head of the Audit Supervision Department of China First Tractor Group, the head of the audit department and a Supervisor of the Company. Ms. Yi has extensive experience in the fields of enterprise accounting, financial management, internal control and internal audit. Ms. Yi graduated from Henan Radio & Television University in 1986, and later from the 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. Shao Jianxin, aged 57, joined China First Tractor Group in 1973 and served at the Company since 1997. He was the deputy workshop director, director, assistant to factory manager, deputy factory manager and factory manager of No. 2 Fabricating Factory of the Company. He is currently a staff representative Supervisor and the head 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 Jianjun, aged 34, joined China First Tractor Group in 1998. Mr. Wang was previously the section chief of the technology center, the deputy secretary of Communist Youth League (團委副書記), the deputy head of the Department of Relations between the Party and the General Public (黨群工作部副部長) and the secretary of Communist Youth League (團委書記) of China First Tractor Group. He served at the Company since 2010 and currently serves as the secretary of Communist Youth League of China First Tractor Group, the staff representative Supervisor, the party secretary of No. 4 Fabricating Factory and the chairman of the Labour Union of the Company. Mr. Wang has extensive experience in the fields of product development and handling relations between the party and the general public. He studied at the Engineering Machinery Department of Taiyuan Heavy Machinery Institute and was awarded a bachelor degree in engineering. He holds the title of engineer.

Mr. Wang Yong, aged 42, graduated from China Youth University for Political Sciences in 1990 with a bachelor 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, USA, School of Law of Columbia University and University of Oxford. Mr. Wang served at the Company since 2009 and is currently a Supervisor of the Company, the head and professor of Institute of Commercial Law of School of Civil Commercial and Economic Law of China University of Political Science and Law, and a member of the International Exchange Committee of China University of Political Science and Law. He is also a standing council member of China Commercial Law Institute, a council member of China Securities Law Institute, and a part-time lawyer of Beijing East Land Law Firm (北京東土律師事務所). Mr. Wang has long been engaging in research and legal practice of Civil Law, Company Law and Securities Law, and has extensive experience in the areas of Civil Law, Company Law, Securities Law and corporate governance.

Mr. Huang Ping, aged 42, served as the head of Finance Department of Luoyang Yutong Automobile Co., Ltd (洛陽宇通汽車有限公司). He has been working at Luoyang Zhonghua Certified Public Accountants Co., Ltd. since 1997. Mr. Huang served at the Company since 2009 and is currently a Supervisor of the Company, the deputy director of Luoyang Zhonghua Certified Public Accountants Co., Ltd. and an independent non-executive director of Luoyang Glass Company Limited. He is also a standing council member of Institute of Certified Public Accountants of Luoyang, the vice president of Luoyang Judicial Authentication Association and a standing council member of Luoyang Entrepreneurs Association. Mr. Huang possesses 13 years of experience in auditing as a certified accountant and has extensive experience in the fields of financial audit, corporate reform, debt-to-equity swap, investment and financing, mergers and acquisitions as well as bankruptcy and liquidation. Mr. Huang graduated from Luoyang Institute of Science and Technology in 1989, majoring in financial accounting. He is a certified accountant with qualification in securities dealing.

JOINT COMPANY SECRETARIES

Ms. Yu Lina, aged 40, joined China First Tractor Group in 1992 and served at the Company since 1997. She was the legal adviser of the Secretarial Office to the Board, the head of the Secretarial Office and the assistant to secretary to the Board. She is currently the secretary to the Board, a director of China-Africa Machinery Corp. (中非重工投資有限公司) and YTO (Luoyang) Flag Auto-Body Co., Ltd (一拖(洛陽)福萊格車身有限公司). Ms. Yu is experienced in corporate management and capital operation. She studied at the 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 degree and a master degree in law. Ms. Yu holds the qualifications of PRC lawyer and corporate legal adviser and the title of economist.

Ms. Liu Pui Yee, aged 33, 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. She served at the Company since 2008 and is currently a joint company secretary of the Company. Ms. Liu has accumulated extensive experience in handling compliance issues with respect to listed companies and corporate merger and acquisition transactions. She is also a joint company secretary of TravelSky Technology Limited.

GENERAL MANAGER

Mr. Liu Jiguo, aged 46, joined China First Tractor Group in 1987 and served at the Company since 2000. He served as the deputy factory manager and factory manager of the gear wheel factory, the executive deputy general manager and general manager of Agricultural Equipment Division of the Company, the deputy general manager of the Company, and an assistant to general manager of China First Tractor Group. He is currently the general manager of the Company and a director of YTO Group Finance Co., Ltd (中國一拖集團財務有限責任公司). Mr. Liu is familiar with machinery manufacturing technics and equipment, marketing, and has extensive experience in the fields of corporate management, production and operation as well as financial management. Mr. Liu studied at Northeast Heavy Machinery Institute and Jiangsu Polytechnic University and was awarded a bachelor degree and master degree in engineering respectively. He holds the title of senior engineer.

DEPUTY GENERAL MANAGERS

Ms. Ren Huijuan, aged 52, joined China First Tractor Group in 1982. She was the deputy head and deputy secretary of Technology and Material Research Institute, the head of the organization office of the Party Committee, the head of the External Affairs Department (涉外事務處處長), the head of the Human Resources Division (人力資源部部長) and the vice chairman of the Labour Union. She served at the Company since 2008 and is currently a staff director and the chairman of the Labour Union of China First Tractor Group, the party secretary and deputy general manager of the Company. Ms. Ren has long engaged in corporate organization and personnel affairs and has extensive experience in these areas. Ms. Ren studied at Luoyang Institute of Technology and Jiangsu Polytechnic University and was awarded a bachelor degree and a master degree in engineering respectively. She holds the title of senior political engineer.

Mr. Li Xibin is the deputy general manager of the Company. For his biographical details, please refer to page 26 of this Annual Report.

Mr. Jin Yang, aged 51, joined China First Tractor Group in 1993, where he was the workshop director, assistant to factory manager and factor manager of China First Tractor Group, the deputy general manager and general manager of Construction Machinery Division. He served at the Company since 2004 and was the deputy general manager of the Company during the Reporting Period. Mr. Jin is familiar with machinery manufacturing technics and equipment, and has extensive experience in the fields of corporate management, technics materials, production and operation. Mr. Jin studied at Changchun Institute of Optics and Fine Mechanics and was awarded a bachelor degree in engineering. He holds the title of senior engineer.

Mr. Lian Guoqing, aged 54, joined China First Tractor Group in 1982 and served at the Company since 1997. He was the technical section head and deputy chief engineer of No. 2 Fabricating Factory, the deputy chief engineer, chief engineer, executive deputy factory manager and factory manager of No. 3 Fabricating Factory, the deputy general manager and general manager of Agricultural Equipment Division of the Company. He is currently the deputy general manager of the Company. Mr. Lian is familiar with mechanic design and manufacture, and has extensive experience in the fields of production and operation as well as corporate management. Mr. Lian graduated from Luoyang Institute of Technology and its postgraduate course of management science and engineering, with a bachelor degree in engineering. He holds the title of senior engineer.

REPORT OF THE DIRECTORS

1. THE WORK OF THE BOARD

During the Reporting Period, the Board held a total of 12 meetings (including 4 regular meetings) which are detailed as follows:

At the 7th meeting of the fifth session of the Board held on 2 February 2010 at the headquarters of the Company, the resolutions regarding the Company's financial credit and trade financing, as well as authorisation to its subsidiaries in respect of entrusted loan and guarantee, assets disposal and investment in the incorporation of Jiangyan Power were considered and approved.

At the 8th meeting of the fifth session of the Board held on 3 March 2010 by way of circulating written resolutions for adoption, the resolutions regarding the disposal of the assets-in-kind related to the Company's harvester business and acquisition of the equity interests in Shanghai Dragon by the Company were considered and approved.

At the 9th meeting of the fifth session of the Board held on 16 March 2010 by way of circulating written resolutions for adoption, the resolution regarding the reorganization of the assets of construction machinery business was considered and approved.

At the 10th meeting of the fifth session of the Board held on 9 April 2010 at the headquarters of the Company, the Company's 2009 annual results report and the relevant resolutions were considered and approved.

At the 11th meeting of the fifth session of the Board held by way of circulating written resolutions for adoption from 13 May 2010 to 18 May 2010, the resolution regarding the investment by YTO Diesel, a subsidiary of the Company, in Luoyang Commercial Bank Company Limited（洛陽市商業銀行股份有限公司）was considered and approved.

At the 12th meeting of the fifth session of the Board held on 28 June 2010 at the headquarters of the Company, the relevant resolutions in relation to the Company's issue of A shares (the "**Issue of A Shares**"), and election of Mr. Zhang Qiusheng as an independent non-executive Director, continuing connected transactions (financial services), disposal of 100% equity interests in each of YTO Jiangong and YTO Machinery Sales and convening of the first extraordinary general meeting for 2010 and relevant rules of procedures and principles were considered and approved.

At the 13th meeting of the fifth session of the Board held on 3 August 2010 at the headquarters of the Company, the resolutions regarding the acquisition of 51% equity interests in Tractors Research Company, the Decision Making Principles on Connected Transactions and Decision Making Principles on Investments and Operation, as well as convening of the second extraordinary general meeting for 2010 were considered and approved.

At the 14th meeting of the fifth session of the Board held on 20 August 2010 at the headquarters of the Company, the resolutions in relation to the 2010 interim results report, Detailed Work Rules for the General Manager, Work Rules for the Secretary to the Board, Administrative Measures on Information Disclosure, establishment of the Nomination Committee and the Strategy & Investment Committee and change of members of the Audit Committee and the Remuneration Committee were considered and approved.

At the 15th meeting of the fifth session of the Board held on 25 October 2010 by way of circulating written resolutions for adoption, the resolution in relation to the purchase of the 2010 first tranche short-term financing bills of YTO by YTO Finance, a subsidiary of the Company, was considered and approved.

At the 16th meeting of the fifth session of the Board held on 10 November 2010 by way of circulating written resolutions for adoption, the resolution regarding the one-off connected transaction between YTO (Xinjiang) Machinery Co., Ltd (一拖(新疆)東方紅裝備機械有限公司) ("**YTO Dongfanghong**"), a wholly-owned subsidiary of the Company, and SCIVIC Engineering Corporation (機械工業第四設計研究院) ("**SCIVIC**") was considered and approved.

At the 17th meeting of the fifth session of the Board held on 26 November 2010 by way of circulating written resolutions for adoption, the resolutions regarding the resignation of Mr. Liu Dagong as the Chairman and executive Director, and adjustment of members of the special committees under the Board were considered and approved.

At the 18th meeting of the fifth session of the Board held on 10 December 2010 at the headquarters of the Company, the resolutions regarding the resignation of Mr. Qu Dawei, Ms. Dong Jianhong and Mr. Jiao Tianmin as the General Manager, Chief Financial Officer and deputy general manager of the Company respectively, the appointment of Mr. Liu Jiguo as the General Manager of the Company, the matters in relation to the Issue of A Shares such as investment projects funded by the proceeds from the Issue of A Shares of the Company, continuing connected transactions in relation to technology service, change of the Company's international auditor and trade financing for 2011 were considered and approved.

2. PRINCIPAL BUSINESS

The Company is principally engaged in production and sale of agricultural tractors. The Group is principally engaged in manufacture and sale of agricultural machineries, manufacture and sale of construction machineries, manufacture and sale of diesel engines and its components such as injection pumps and injection nozzles, provision of financial services such as loans, bills discounting and deposit-taking. Details of the principal activities of the subsidiaries of the Company are set out in Note 19 to the Consolidated Financial Statements in this Annual Report.

There was no significant change in the nature of the Group's principal activities during the Reporting Period.

3. RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the financial status of the Company and the Group as at 31 December 2010 are set out in the Consolidated Financial Statements on page 73 to page 216 of this Annual Report.

The Board recommends payment of a final dividend in the amount of RMB0.08 per share for the year 2010. The dividends for H shares ("**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$0.0951 per H Share. The said dividend will be distributed on or before 16 August 2011 to shareholders whose names appear on the register of members as at 18 May 2011. Payment of the dividend is subject to the approval by shareholders of the Company at the annual general meeting to be held on 17 June 2011, Friday. In order to determine the holders of H Shares who are entitled to receive the 2010 final cash dividend, the Company's register of members will be closed from 18 May 2011 to 16 June 2011 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares who wish to receive the 2010 final cash dividend 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 4:00 p.m. on 17 May 2011 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 2010 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 ("**H Shares Register**") on 18 May 2011. The Company will distribute the final dividend to such non-resident enterprises after deducting the relevant 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 2010 final dividend payable to any natural person shareholder listed on the H Shares Register on 18 May 2011. 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 shall duly lodge all transfer documents together with the relevant H Share certificates with the H Shares registrar of the Company for registration, at or before 4:00 p.m. on 17 May 2011.

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.

4. 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				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)			
Turnover	**10,132,335**	9,004,986	7,933,721	7,102,150	6,101,451
Profit/(loss) before tax	**645,465**	367,196	90,407	237,804	87,467
Tax	**(83,594)**	(85,284)	(9,528)	(40,024)	(15,251)
Current profit/(loss)	**561,871**	281,912	80,879	197,780	72,216
Minority interests	**(19,510)**	(33,361)	(12,374)	(16,018)	633
Net profit/(loss) attributable to equity holders of the parent	**542,361**	248,551	68,505	181,762	72,849

Note: "Restated" is due to the acquisition of Tractors Research Company by the Company in 2010, which constitutes a business combination under common control. The relevant figures in respect of the 2009 consolidated results were restated in accordance with the relevant requirements to consolidate those of Tractors Research Company.

Consolidated assets, liabilities and minority interests

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)	(Restated)		
Total assets	**8,193,336**	5,885,512	5,625,869	5,488,083	4,991,222
Total liabilities	**(4,715,013)**	(2,846,609)	(2,847,090)	(2,735,190)	(2,623,173)
Minority interests	**(395,375)**	(232,654)	(221,323)	(177,848)	(170,018)
Total equity attributable to equity holders of the parent	**3,478,323**	3,038,903	2,778,779	2,575,045	2,198,031

Note: "Restated" is due to the acquisition of Tractors Research Company by the Company in 2010, which constitutes a business combination under common control. The relevant figures in the 2008 and 2009 consolidated balance sheets were restated according to the relevant requirements to consolidate those of Tractors Research Company.

5. SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the Reporting Period, there was no change in the registered capital or issued share capital 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 (the "**Articles of Association**") or the laws of the PRC which would oblige the Company to offer new shares of the Company on a pro rata basis to its existing shareholders.

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

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

8. RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period and details of the distributable reserves of the Company as at 31 December 2010 are set out in Note 41 to the Consolidated Financial Statements in this Annual Report.

9. 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 sales and total purchase of the Group. Apart from the transactions disclosed in section 19 headed "Connected Transactions" of this chapter, so far as the Board is aware, none of the Directors, Supervisors, their associates or any shareholder who own 5% or above of the share capital of the Company had an interest in the major customers of the Group.

10. DIRECTORS AND SUPERVISORS

The term of office of the fifth session of the Board of the Company took effect on 1 July 2009 for three years. During the Reporting Period and as at the date hereof, members of the Board and their movements are as follows:

Executive Directors:

Mr. Liu Dagong (resigned on 26 November 2010)
Mr. Zhao Yanshui (resigned as a non-executive Director and appointed as the executive Director and Chairman on 26 November 2010)
Ms. Dong Jianhong
Mr. Qu Dawei
Mr. Li Xibin (resigned on 25 March 2011)

Non-executive Directors:

Mr. Yan Linjiao
Mr. Shao Haichen (resigned on 25 March 2011)
Mr. Liu Yongle

Independent non-executive Directors:

Mr. Chan Sau Shan, Gary
Mr. Luo Xiwen
Mr. Hong Xiangguo
Mr. Zhang Qiusheng (appointed on 16 August 2010)

The term of office of the fifth session of the Board of Supervisors of the Company took effect on 1 July 2009 for three years. During the Reporting Period, members of the Board of Supervisors and their movements are as follows:

Supervisors:

Mr. Zheng Luyu
Ms. Yi Liwen
Mr. Wang Yong
Mr. Huang Ping
Mr. Zhao Shengyao (staff representative Supervisor, resigned on 8 December 2010)
Mr. Shao Jianxin (staff representative Supervisor)
Mr. Wang Jianjun (staff representative Supervisor, appointed on 8 December 2010)

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

Executive Directors Mr. Zhao Yanshui, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin; non-executive Directors Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle; independent non-executive Directors Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo; and Supervisors Mr. Zheng Luyu, Ms. Yi Liwen, Mr. Shao Jianxin, Mr. Wang Yong and Mr. Huang Ping entered into service contracts with the Company respectively on 1 July 2009 for a term commencing from 1 July 2009 to 30 June 2012. Independent non-executive Director Mr. Zhang Qiusheng entered into a service contract with the Company on 16 August 2010 for a term commencing from 16 August 2010 to 30 June 2012. Supervisor Mr. Wang Jianjun entered into a service contract with the Company on 8 December 2010 for a term commencing from 8 December 2010 to 30 June 2012. All the above service contracts were the same in all material aspects except for the remuneration packages. Details of the remunerations of the Directors and Supervisors 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 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 were determined by the Remuneration Committee after taking into consideration the factors including the salaries paid by comparable companies, the time commitment, and duties and responsibilities of the Directors and Supervisors and the remuneration of other positions within the Group.

Given the resignation of Mr. Liu Dagong as the Chairman and executive Director on 26 November 2010, the service contract entered into between him and the Company on 1 July 2009 was terminated on the date of his resignation (i.e. 26 November 2010).

Given the resignation of Mr. Li Xibin as an executive Director on 25 March 2011, the service contract entered into between him and the Company on 1 July 2009 was terminated on the date of his resignation (i.e. 25 March 2011).

Given the resignation of Mr. Shao Haichen as a non-executive Director on 25 March 2011, the service contract entered into between him and the Company on 1 July 2009 was terminated on the date of his resignation (i.e. 25 March 2011).

Given the resignation of Mr. Zhao Shengyao as a Supervisor on 8 December 2010, the service contract entered into between him and the Company on 1 July 2009 was terminated on the date of his resignation (i.e. 8 December 2010).

12. 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 11 headed "SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS AND REMUNERATION POLICY" in this chapter and disclosed hereinafter, none of the Directors or Supervisors 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.

Executive Director Mr. Li Xibin, who has resigned as an executive Director on 25 March 2011, owned 0.995% of the equity interests in YTO (Luoyang) Power Machinery Co., Ltd (一拖(洛陽)動力機械有限公司) ("**YTO Power**"), a subsidiary of the Company, and was indirectly interested in 2.284% of the equity interests in YTO Diesel, 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). For the year ended 31 December 2010, YTO Power and YTO Diesel supplied diesel engines and the relevant components amounting to approximately RMB722,684,000 to the Group in accordance with certain internal transaction agreements entered into with the Group during the Reporting Period.

13. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

Except as disclosed below, as at 31 December 2010, 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 (Chapter 571, Laws of Hong Kong) (the "**SFO**")), which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of the Securities on the Stock Exchange (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)[1]	YTO Power[2]	Beneficial Owner	RMB377,960	0.995%

Notes: 1. Mr. Li Xibin resigned as an executive Director on 25 March 2011.

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

16. CONTRACTS OF SIGNIFICANCE

Except for the transactions set out in section 19 headed "CONNECTED TRANSACTIONS" in this chapter and those as disclosed below, neither the Company nor any of its subsidiaries has entered into any contract of significance with the controlling shareholder of the Company or any of its subsidiaries during the Reporting Period.

During the Reporting Period, the Company entered into the Entrusted Loan Borrowing Contract with YTO and China Machinery Finance Co., Ltd (國機財務有限公司)("**China Machinery Finance**", a subsidiary of Sinomach), pursuant to which China Machinery Finance granted entrusted loan in an amount of RMB600,000,000 to the Company for a term of 24 months at a rate of 5.13% per annum.

17. SHARE CAPITAL STRUCTURE AND ITS CHANGES

During the Reporting Period, there was no change in the registered share capital or issued share capital of the Company. As at 31 December 2010, the total issued shares of the Company amounted to 845,900,000 shares with the following share capital structure:

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

18. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS AND ULTIMATE CONTROLLER

During the Reporting Period, there was no change in the ultimate controller of the Company, which remained to be Sinomach (the controlling shareholder of YTO). As at 31 December 2010, the following shareholders of the Company (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Domestic Shares

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

H Shares

Name of shareholder	Capacity	Nature of interests		Number of shares	Approximate percentage of the total issued H Shares of the Company
JPMorgan Chase & Co.[2]	Custodian corporation/ approved lending agent	Long position		28,284,206	7.04
	Interests of controlled corporations	Long position		36,000	0.01
			Total	28,320,206	7.05
Public Mutual Berhad	Investment manager	Long position		22,990,000	5.72
Neuberger Berman Group LLC[3]	Interests of controlled corporations	Long position		20,107,900	5.00

Notes: 1. Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interests in the Company as those owned by YTO by virtue of the SFO, holding 443,910,000 domestic shares of the Company.

2. JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. JPMorgan Chase & Co. is deemed to have the same interests in the Company as those owned by JPMorgan Chase Bank, N.A. by virtue of the SFO. JPMorgan Chase Bank, N.A. holds 28,284,206 H Shares of the Company. JPMorgan Chase & Co. also holds 36,000 H Shares of the Company through its controlled corporations, totalling 28,320,206 H Shares, of which 28,284,206 H Shares are shares in a lending pool.

3. Neuberger Berman Group LLC holds the entire share capital of Neuberger Berman Holdings LLC and Neuberger Berman Holdings LLC holds the entire share capital of Neuberger Berman LLC. Neuberger Berman Group LLC and Neuberger Berman Holdings LLC are both deemed to have the same interests (i.e. 20,107,900 H Shares) in the Company as those owned by Neuberger Berman LLC by virtue of the SFO.

Save as disclosed above, as at 31 December 2010, 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 SFO.

According to public information and as far as the Directors are aware, as at the latest practicable date prior to the printing of this Annual Report, the Company has sufficient public float which satisfies the minimum public float requirement under the Listing Rules.

19. CONNECTED TRANSACTIONS

Save as disclosed in this section 19, the Group does not have any other connected transactions during the Reporting Period. Details of the Group's connected transactions are set out in Note 51 to the Consolidated Financial Statements in this Annual Report.

(1) Continuing connected transactions

(a) In order to ensure the continual provision of goods and services such as material supply, energy supply to or from the Group necessary for its operating needs and sustainable business development of the Group, the Company (on behalf of its subsidiaries) and YTO, the controlling shareholder of the Company (on behalf of its controlling shareholder and their respective controlled companies/entities and/or the non-wholly owned subsidiaries of the Company in which any aforesaid party holds 10% or more voting rights) entered into seven continuing connected transaction agreements on 21 October 2009, including four continuing connected transaction agreements subject to the approval of the independent shareholders of the Company, namely the First Tractor Supply Agreement, YTO Supply Agreement, YTO Composite Services Agreement and YTO Energy Supply Services Agreement (collectively, the "**Four Agreements**"), and three continuing connected transaction agreements exempted from the approval of the independent shareholders of the Company, namely the First Tractor Properties Lease Agreement, YTO Properties Lease Agreement and YTO Land Lease Agreement. The terms of aforesaid seven agreements commenced from 1 January 2010 to 31 December 2012. The Company has made reporting and announcement in relation to the aforesaid seven agreements and transactions contemplated thereunder pursuant to the relevant requirements under Chapter 14A of the Listing Rules on 21 October 2009. The Four Agreements and their respective cap amounts were approved by the independent shareholders at the extraordinary general meeting of the Company held on 22 December 2009.

In order to ensure stable use of the land leased by the Company under the YTO Land Lease Agreement and to meet the relevant requirements with respect to the Issue of A Shares of the Company, the Company and YTO entered into the Supplemental Land Lease Agreement (the "**Supplemental Agreement**") on 28 June 2010 to revise certain terms of the YTO Land Lease Agreement (but the cap amounts remain unchanged) and stipulate the pre-emptive rights of the Company in lease renewal and transfer of the land. Except for the revised terms in the Supplemental Agreement, other terms in the YTO Land Lease Agreement remain unchanged. The term of the Supplemental Agreement commenced from 28 June 2010 to 31 December 2012. Pursuant to Chapter 14A of the Listing Rules, the Supplemental Agreement constitutes a continuing connected transaction of the Company and is exempted from the approval of the independent shareholder of the Company. The Company has made reporting and announcement in relation to the Supplemental Agreement on 28 June 2010.

The respective cap amounts and transaction amounts of the abovementioned continuing connected transactions for the year ended 31 December 2010 are as follows:

	For the year ended 31 December 2010	
Name	**Cap amounts** *RMB'000*	**Transaction amounts** *RMB'000*
First Tractor Supply Agreement	1,200,000	569,806
YTO Supply Agreement	1,300,000	1,263,734
YTO Composite Services Agreement	100,000	96,382
YTO Energy Supply Services Agreement	200,000	110,653
First Tractor Properties Lease Agreement	8,000	5,431
YTO Properties Lease Agreement	6,000	4,079
YTO Land Lease Agreement	22,000	16,790

(b) With an aim to make the best use of finance services as a platform and upon taking into consideration the circumstances such as the revenue from the provision of the financial services by YTO Finance to YTO, and the resources of YTO Finance, etc., YTO Finance, a non-wholly owned subsidiary of the Company, and YTO entered into the Loan Agreement, Bills Acceptance Agreement, Bills Discounting Agreement and Deposit Agreement (collectively, the "**Financial Services Agreements**") on 28 June 2010 with a term commencing from 16 August 2010 to 31 December 2012. The loan interest rate, discount rate and deposit interest rate shall be determined with reference to the relevant rates set by the People's Bank of China from time to time. The transactions contemplated under the Financial Services Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Among them, the Loan Agreement, Bills Acceptance Agreement and Bills Discounting Agreement (collectively, the "**Three Agreements**") are subject to the approval of the independent shareholders of the Company. The Company has made reporting and announcement in relation to the Financial Services Agreements on 28 June 2010 and obtained the approval from the independent shareholders in respect of the Three Agreements and their respective cap amounts at the extraordinary general meeting of the Company held on 16 August 2010.

The respective cap amounts and maximum outstanding amounts of the Three Agreements for the year ended 31 December 2010 are as follows:

	For the year ended 31 December 2010	
Name	**Cap amounts** *RMB'000*	**Maximum outstanding amounts** *RMB'000*
Loan Agreement	450,000	440,200
Bills Acceptance Agreement	250,000	39,260
Bills Discounting Agreement	300,000	297,000

(c) On 6 June 1997, the Company entered into a technology service agreement with YTO (the "**Old Technology Services Agreement**"), whereby YTO agreed to provide daily technology services and specific technology services including technical development and technical consultation to the Group. According to the Old Technology Services Agreement, the Company shall pay a service fee in respect of the daily technology services to YTO at a rate of 0.2% of the annual sales (after deducting any paid value added taxes and other applicable taxes as well as discounts) of the Company.

On 3 August 2010, the Company entered into an agreement with YTO to acquire 51% equity interests in Tractors Research Company (details are set out in sub-section (2)(c) headed "Acquisition of 51% equity interests in Tractors Research Company" below). Upon completion of the transaction, Tractors Research Company ceased to be a wholly-owned subsidiary of YTO but a non-wholly owned subsidiary of the Company. The Company and YTO hold 51% and 49% equity interests in Tractors Research Company, respectively.

As the Group needs to obtain technology services from Tractors Research Company in respect of the research and development of tractors and power machineries, on 21 December 2010, the Company (for itself and on behalf of its subsidiaries other than Tractors Research Company) entered into the First Tractor Technology Services Agreement (the "**FT Technology Services Agreement**") with Tractors Research Company (for itself and on behalf of Luoyang Xinyan Material Mechanical Engineering Co., Ltd（洛陽鑫研機械材料工程有限公司）and Luoyang Xiyuan Motor Power Test Co., Ltd（洛陽西苑車輛動力檢驗所有限公司）, pursuant to which Tractors Research Company shall provide technology services such as technical development and technical consultation to the Group (other than Tractors Research Company). At the same time, as YTO also needs to obtain technology services from Tractors Research Company in respect of construction machineries and vehicle-related products, on 21 December 2010, YTO (for itself and on behalf of its subsidiaries other than the Group) entered into the YTO Technology Services Agreement (the "**YTO Technology Services Agreement**") with Tractors Research Company (for itself and on behalf of Luoyang Xinyan Material Mechanical Engineering Co., Ltd（洛陽鑫研機械材料工程有限公司）and Luoyang Xiyuan Motor Power Test Co., Ltd（洛陽西苑車輛動力檢驗所有限公司）). On the same day, the Company and YTO terminated the Old Technology Services Agreement in accordance with the termination provisions thereunder.

The terms of the FT Technology Services Agreement and the YTO Technology Services Agreement commenced from 21 December 2010 to 31 December 2012. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the FT Technology Services Agreement and the YTO Technology Services Agreement constitute continuing connected transactions which are exempted from the approval of the independent shareholders of the Company and are only subject to reporting and announcement requirements. The Company has made reporting and announcement on 21 December 2010.

As at 21 December 2010, the cap amount and transaction amount of the Old Technology Services Agreement are as follows:

	As at 21 December 2010	
Name	**Cap amount**	**Transaction amount**
	RMB'000	*RMB'000*
Old Technology Services Agreement[1]	240,010	116,811

Note: 1. The technology service fee is up to 3% of the net tangible assets of the Group. For the year ended 31 December 2010, the net tangible assets of the Group amounted to RMB8,003,272,000.

The respective cap amounts and transaction amounts of the FT Technology Services Agreement and YTO Technology Services Agreement for the year ended 31 December 2010 are as follows:

	For the year ended 31 December 2010	
Name	**Cap amounts**	**Transaction amounts**
	RMB'000	*RMB'000*
FT Technology Services Agreement	77,950	20,734
YTO Technology Services Agreement	6,750	1,105

(d) On 6 June 1997, the Company and YTO entered into the Trademark Licence Agreement with a term of 30 years (the "**Trademark Licence Agreement**"), pursuant to which YTO granted a license to the Group to use its trademarks such as "东方红"and "" (collectively, the "**Licensed Trademarks**"). The Group shall pay a trademark licence fee at the rate of 0.15%-0.2% of the annual revenue derived from the products using the Licensed Trademarks (after deducting the relevant taxes and selling discounts). Thereafter, YTO successively registered trademarks such as "YTO", "YTO"and "东方红" (with expanded scope of use for products) (collectively, the "**New Trademarks**"). In light of the above, YTO and the Company (on behalf of the Group) entered into the New Trademark Licence Agreement (the "**New Trademark Licence Agreement**") on 21 December 2010, pursuant to which YTO granted a license to the Group to use the New Trademarks. The trademark licence fee is same as that stipulated in the Trademark Licence Agreement. Under the New Trademark Licence Agreement, the Company is not required to pay dual licence fee for those products using both the Licensed Trademarks and New Trademarks. Pursuant to Chapter 14A of the Listing Rules, the transaction contemplated under the New Trademark Licence Agreement constitutes a de minimis exempted continuing connected transaction and is exempted from reporting, announcement and approval by the Company's independent shareholders.

As at 31 December 2010, the cap amount and transaction amount of the Trademark Licence Agreement are as follows:

	For the year ended 31 December 2010	
Name	**Cap amount**	**Transaction amount**
	RMB'000	*RMB'000*
Trademark Licence Agreement[1]	240,010	17,609[2]

Notes: 1. The trademark licence fee is up to 3% of the net tangible assets of the Group. For the year ended 31 December 2010, the net tangible assets of the Group amounted to 8,003,272,000.

2. It includes the transaction amounts of the Trademark Licence Agreement and the New Trademark Licence Agreement. For the year ended 31 December 2010, the transaction amount of the New Trademark Licence Agreement amounted to RMB0.

(2) One-off connected transactions

(a) Disposal of assets in relation to the harvesting machinery business

Due to the existence of competition in the harvesting machinery business between the Group and Luoyang Zhongshou Machinery Assembly Co., Ltd (洛陽中收機械裝備有限公司)(“**Luoyang Machinery**”), a non-wholly owned subsidiary of Sinomach, in order to reduce loss from the harvesting machinery business of the Group, the Company intended to cease such business and dispose the assets related to the harvesting machinery business at a reasonable price. On 28 June 2010, the Company and YTO (Luoyang) Harvest Machinery Co., Ltd(一拖(洛陽)收穫機械有限公司), a non-wholly owned subsidiary of the Company, sold the relevant equipment and facilities related to the manufacture of harvesting machineries to Luoyang Machinery and respectively entered into the Assets Transfer Agreements (the “**Harvesting Machinery Assets Transfer Agreements**”) at a total consideration in cash of approximately RMB21,779,860. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Harvesting Machinery Assets Transfer Agreements constitute connected transactions of the Company and are exempted from the approval of the independent shareholders of the Company. The Company has made reporting and announcement on 28 June 2010.

(b) Disposal of interests in YTO Machinery Sales and YTO Jiangong and provision of financial assistance

On 28 June 2010, the Company entered into the Agreement on Disposal of Equity Interests with YTO to sell 100% equity interests in YTO Machinery Sales (together with its two wholly-owned subsidiaries, namely YTO (Luoyang) Building Machinery Co., Ltd (一拖(洛陽)建築機械有限公司)(“**Building Machinery**”) and YTO (Luoyang) Construction Machinery Co., Ltd (一拖(洛陽)工程機械有限公司)(“**Construction Machinery**”)) and 100% equity interests in YTO Jiangong (collectively, the “**Target Interests**”) to YTO. The transfer consideration of approximately RMB259,806,000 in cash (subject to adjustments) was determined with reference to the appraised net asset value of the Target Interests. Pursuant to Chapter 14A of the Listing Rules, the disposal of the Target Interests is subject to the approval of the independent shareholders of the Company. The Company has made reporting and announcement on 28 June 2010 and obtained independent shareholders' approval at the extraordinary general meeting of the Company held on 16 August 2010. The transaction of the disposal of the Target Interests was completed in the second half of 2010. Pursuant to the adjustment provisions regarding the transfer price of the Target Interests and the specific audited results for the Target Interests for the period from the valuation reference date to the completion date, the transfer price of the Target Interests was adjusted to approximately RMB272,839,000. Upon completion of the disposal, YTO Machinery Sales (including its two wholly-owned subsidiaries, namely Building Machinery and Construction Machinery) and YTO Jiangong ceased to be subsidiaries of the Company. The disposal of the Target Interests by the Company can reduce the potential competition between the Company and the subsidiaries of its ultimate controller in part of the construction machinery business. Besides, the disposal of the Target Interests at a reasonable price can reduce losses accruing from the unsatisfactory operation results of the construction machinery business of YTO Machinery Sales and YTO Jiangong and thereby improve profitability.

During the period from December 2009 to August 2010 (prior to the completion date of the disposal of the Target Interests), YTO Machinery Sales, Building Machinery, Construction Machinery and YTO Jiangong were wholly-owned subsidiaries of the Company. The Company provided an entrusted loan in an amount of RMB11,500,000 (with monthly interest rate of 0.4425%) to YTO Jiangong, a guarantee in an amount of RMB9,650,000 to Construction Machinery and a guarantee in an amount of RMB17,000,000 for a loan in an amount of RMB17,000,000 (with monthly interest rate of 0.464625%) of Building Machinery due to YTO Finance, and YTO Finance, a non-wholly owned subsidiary of the Company, provided a guarantee in an amount of RMB10,100,000 for the liabilities arising from the bills of RMB10,080,000 issued by Building Machinery (collectively, the "**Financial Assistance**"). After completion of the transfer of the Target Interests, as YTO Machinery Sales (including its two wholly-owned subsidiaries, namely Building Machinery and Construction Machinery) and YTO Jiangong became wholly-owned subsidiaries of YTO, the controlling shareholder of the Company, and therefore became connected persons of the Company. Pursuant to Chapter 14A of the Listing Rules, the Financial Assistance constitutes a financial assistance provided by the Group and connected transaction exempted from the approval of the independent shareholders of the Company. The Company has made reporting and announcement in respect of the Financial Assistance on 26 October 2010.

(c) Acquisition of 51% equity interests in Tractors Research Company

With a view to perfecting the Group's business chain, strengthening the research and development capability and enhancing the competitiveness, on 3 August 2010, the Company entered into an agreement with YTO to acquire 51% equity interests in Tractors Research Company held by YTO. The consideration for the transfer of the equity interests is approximately RMB155,333,000. Pursuant to Chapter 14A of the Listing Rules, the transaction constitutes a connected transaction which is subject to reporting, announcement and approval of the independent shareholders of the Company. The Company has made reporting and announcement on 3 August 2010 and obtained independent shareholders' approval at the extraordinary general meeting of the Company held on 20 September 2010.

(d) Purchase of short-term financing bills of YTO by YTO Finance

In order to improve the efficiency in use of the capital of YTO Finance, joined with the high return and low investment risk of purchasing the short-term financing bills of YTO, on 25 October 2010, YTO Finance, a non-wholly owned subsidiary of the Company, entered into a distribution agreement (the "**Distribution Agreement**") with China Citic Bank Corporation Limited ("**China Citic Bank**"), pursuant to which YTO Finance agreed to purchase the short-term financing bills of RMB50,000,000 issued by YTO through China Citic Bank. Pursuant to Chapter 14A of the Listing Rules, the transaction contemplated under the Distribution Agreement constitutes the Company's financial assistance to its controlling shareholder, YTO, and is exempted from the approval of the independent shareholders of the Company. The Company has made reporting and announcement on 26 October 2010. As at 8 March 2011, YTO Finance had sold these short-term financing bills of YTO.

(e) General contract entered into between YTO Dongfanghong and SCIVIC

In order to cement the Group's market position in Xinjiang, China and to expand its products export, the Group intends to establish its agricultural assembly and manufacture base in Xinjiang. In light of the above, YTO Dongfanghong, a wholly-owned subsidiary of the Company, entered into a contract in relation to contracting the project for agricultural assembly machineries (the "**General Contract**") with SCIVIC on 10 November 2010, pursuant to which YTO Dongfanghong entrusted SCIVIC for the construction, assembly, adjustment and testing of Xinjiang assembly base. The consideration of the transaction is RMB64,000,000. SCIVIC is an indirect wholly-owned subsidiary of Sinomach, the ultimate controller of the Company. Pursuant to Chapter 14A of the Listing Rules, SCIVIC is a connected person of the Company and the transaction contemplated under the General Contract constitutes a connected transaction exempted from the approval of the independent shareholders of the Company. The Company has made reporting and announcement on 11 November 2010.

(f) Acquisition by Tractors Research Company of certain research and development assets of YTO

In order to further consolidate the research and development resources and improve the research and development capability of Tractors Research Company, thereby expediting the technological development as well as product research and development and enhancing the quality of the Company's products, on 21 December 2010, Tractors Research Company entered into the assets transfer agreement (the "**R&D Assets Transfer Agreement**") with YTO to acquire certain research and development assets owned by YTO at a total consideration of approximately RMB45,723,000. Pursuant to Chapter 14A of the Listing Rules, the transaction contemplated under the R&D Assets Transfer Agreement constitutes a connected transaction which is exempted from the approval of the independent shareholders of the Company. The Company has made reporting and announcement on 21 December 2010.

(3) Confirmation by Directors

The Directors (including independent non-executive Directors) confirmed that none of them have any material interests in the aforesaid connected transactions.

(4) Confirmation by the Audit Committee and the independent non-executive Directors

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

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

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

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

(5) Confirmation by auditors

Having reviewed the aforesaid continuing connected transactions during the Reporting Period, the auditors has sent a letter to the Board confirming the aforesaid continuing connected transactions:

(a) had obtained the approval of the Board;

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

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

20. SIGNIFICANT EVENTS

(1) The proposal for the Issue of A Shares was approved by the Board on 28 June 2010 for application of issue and listing of not more than 150 million ordinary shares (A shares), which was also approved by shareholders at the first extraordinary general meeting for 2010 as well as the respective class meetings for holders of domestic shares and H Shares of the Company held on 16 August 2010. The Issue of A Shares is however subject to the approval of China Securities Regulatory Commission.

(2) During the Reporting Period, movements of the Directors, Supervisors and senior management of the Company are as follows:

(a) Mr. Zhang Qiusheng was elected as an independent non-executive Director at the first extraordinary general meeting of the Company held on 16 August 2010 with a term of office commencing from 16 August 2010 to 30 June 2012.

(b) On 26 November 2010, at the 17th meeting of the fifth session of the Board of the Company, Mr. Liu Dagong's resignation as the Chairman and executive Director was accepted and Mr. Zhao Yanshui was elected as the Chairman of the Company and a member of the Nomination Committee under the Board. Mr. Zhao Yanshui was also the chairman of the Strategy & Investment Committee.

(c) On 8 December 2010, at the democratic management meeting of the staff representatives of the Company, Mr. Wang Jianjun was elected as a staff representative Supervisor with a term of office commencing from 8 December 2010 to 30 June 2012. Mr. Zhao Shengyao ceased to be a staff representative Supervisor due to reallocation of work.

(d) On 10 December 2010, the 18th meeting of the fifth session of the Board of the Company approved Mr. Qu Dawei, Ms. Dong Jianhong and Mr. Jiao Tianmin to resign as the General Manger, the Chief Financial Officer and the deputy general manager of the Company respectively and appoint Mr. Liu Jiguo as the General Manager of the Company. The Company will identify an appropriate candidate for the position of Chief Financial Officer and will make announcements as and when appropriate in accordance with the Listing Rules.

(3) During the Reporting Period, the production line of hi-powered wheeled tractors, which represents the highest standard in China, was completed and commenced operation in YTO Industrial Zone (一拖工業園). It also produced the first power shift transmission hi-powered tractor of autonomic intellectual property rights in mainland China.

(4) During the Reporting Period, the hi-powered, mid-powered, low-powered tractors and compact crawler excavators under the Group's "DongFangHong" brand were awarded the satisfactory brand among the users in the nation (全國用戶滿意品牌).

(5) During the Reporting Period, neither the Company nor any of its Directors, Supervisors or senior management was involved in any material litigation or arbitration.

21. 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 (the "**Governance Code**") in Appendix 14 to the Listing Rules during the Reporting Period. Details are set out in the Corporate Governance Report in this Annual Report.

22. AUDITORS

At the Company's 2008 annual general meeting on 19 June 2009, Ernst & Young ("**EY**") 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, EY and Ernst & Young Hua Ming ("**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 Hong Kong**") and Vocation International Certified Public Accountants Company Limited ("**VICPA**") to replace EY and EY Hua Ming as the Company's international and PRC auditors respectively for the year 2009 were approved.

On 11 June 2010, at the 2009 annual general meeting of the Company, UHY Hong Kong and VICPA were appointed as the international and PRC auditors of the Company respectively for the year 2010 and the Board was authorized to determine their remunerations.

In October 2010, the H-share audit business of UHY Hong Kong, the international auditor of the Company, was merged with Baker Tilly Hong Kong Limited ("**Baker Tilly Hong Kong**"). Baker Tilly Hong Kong also changed its Chinese name from "香港天華會計師事務所有限公司" to "天職香港會計師事務所有限公司". UHY Hong Kong resigned as the international auditor of the Company for the year 2010, with effect from 23 November 2010. UHY Hong Kong had confirmed that there were no matters with respect to its resignation which need to be brought to the attention of the shareholders or the creditors of the Company, nor were there other matters with respect to its resignation which need to be brought to the attention of the Audit Committee. There is no disagreement between UHY Hong Kong and the Company with respect to its resignation.

On 28 January 2011, it was approved at the extraordinary general meeting of the Company that the international auditor of the Company for the year 2010 was changed from UHY Hong Kong to Baker Tilly Hong Kong and the Board was authorized to determine the remuneration of the international auditor of the Company.

23. 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
Zhao Yanshui
Chairman

Luoyang, the PRC
25 March 2011

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company has been proactively complying with all the code provisions of the Governance Code in Appendix 14 to the Listing Rules while perfecting and implementing the governance and disclosure measures to ensure sustainable and healthy growth of the Company.

THE BOARD OF DIRECTORS

The fifth session of the Board comprises 12 Directors. Mr. Liu Dagong resigned as the Chairman and executive Director of the Company on 26 November 2010. On the same day, Mr. Zhao Yanshui, a non-executive Director, was appointed as the Chairman and executive Director of the Company. As at 31 December 2010, the Board had 11 members, with 1 vacancy to be filled, comprising four executive Directors, namely Mr. Zhao Yanshui (Chairman), Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin; three non-executive Directors, namely Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle; and four independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng. Except for Mr. Zhang Qiusheng who was appointed as an independent non-executive Director of the Company on 16 August 2010, all members of the fifth session of the Board, namely, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen, Mr. Liu Yongle, Ms. Dong Jianhong, Mr. Qu Dawei, Mr. Li Xibin, Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo, have served as executive or non-executive or independent non-executive Directors of the Company since 1 July 2009. The biographical details of each of the Directors are set out on page 25 to page 28 of this Annual Report. Mr. Li Xibin and Mr. Shao Haichen resigned as an executive Director and a non-executive Director respectively on 25 March 2011.

The Company has received the annual confirmation letter issued by each of the four independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng, in respect of their respective independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent and comply with the independence assessment as set out in Rule 3.13 of the Listing Rules.

The Board is the legal business decision-making body of the Company. It undertakes the leadership role and supervises the business and operation of the Company, aiming to assist all shareholders of the Company to attain their best economic interests.

Under the leadership of the Chairman, the Board is responsible for formulating and reviewing the Group's development strategies and operating strategies, preparing annual budgets and final accounting schemes and annual business plans, proposing dividend plans as well as supervising management members in accordance with the relevant laws and regulations, rules and Articles of Association. The management of the Company is led by the General Manager and is responsible for supervising the Company's daily business operation, policy planning and implementation as well as accounting to the Board in respect of the operation and business of the Company. The General Manager keeps in contact with all Directors and ensures Directors' timely understanding of the information in relation to the operating activities of the Group.

Basic principles applied in the meetings of the Board include group decision, individual responsibility and majority rule.

During the Reporting Period, the fifth session of the Board convened a total of 12 meetings (including the extraordinary meetings of the Board held by way of circulating written resolutions for adoption). Attendance of each Director is as follows:

Position	Name of Directors	Number of attendance/ number of possible attendance
Chairman *(and executive Director)*	Mr. Liu Dagong (resigned on 26 November 2010)	10/10
Chairman *(and executive Director)*	Mr. Zhao Yanshui (appointed on 26 November 2010)	12/12
Executive Directors	Ms. Dong Jianhong	12/12
	Mr. Qu Dawei	12/12
	Mr. Li Xibin	12/12
Non-executive Directors	Mr. Yan Linjiao	12/12
	Mr. Shao Haichen	12/12
	Mr. Liu Yongle	12/12
Independent non-executive Directors	Mr. Luo Xiwen	11/12
	Mr. Chan Sau Shan, Gary	11/12
	Mr. Hong Xianguo	12/12
	Mr. Zhang Qiusheng (appointed on 16 August 2010)	5/5

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

The Board convened 4 regular meetings during this financial year. Notice was delivered 14 days prior to the date of each regular meeting and documents containing the meeting agenda were delivered to all Directors before the date of the Board meeting to ensure that all Directors had the opportunity to discuss the matters listed in the agenda. Notices of other Board meetings were also delivered in compliance with the requirements of the Articles of Association within a reasonable time to enable all Directors to allocate time for attendance.

All Directors can access to the views and services of the secretary to the Board, including, among other things, the agenda of Board meetings and meeting minutes.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Liu Dagong acted as the Chairman of the Board of the Company during the period from 26 June 2009 to 26 November 2010, and Mr. Zhao Yanshui has been serving as the Chairman of the Board since 26 November 2010. Mr. Qu Dawei acted as the General Manager of the Company during the period from 26 June 2009 to 10 December 2010, and Mr. Liu Jiguo succeeded Mr. Qu Dawei as the General Manager on 10 December 2010. The biographical details of the Chairman of the Board and the General Manager of the Company are set out on page 25 and page 30 of this Annual Report respectively.

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, ensuring a balance of power and authority. There is no indication that power was concentrated in the hands of one single individual.

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

The terms of office of the non-executive Directors, Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle and those of the independent non-executive Directors, Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo commenced from 1 July 2009 to on 30 June 2012 (except for Mr. Shao Haichen who resigned as a non-executive Director on 25 March 2011). The term of office of Mr. Zhang Qiusheng as an independent non-executive Director commenced from 16 August 2010 to 30 June 2012.

All the above 7 non-executive/independent non-executive Directors possess proper professional qualifications. In particular, independent non-executive Director Mr. Luo Xiwen is a senior expert in agricultural machinery and an academician of Chinese Academy of Engineering; independent non-executive Director Mr. Chan Sau Shan, Gary has long been engaged in investment banking and has extensive experience in financial management; independent non-executive Director Mr. Hong Xianguo is a senior expert in agricultural machinery industry; and independent non-executive Director Mr. Zhang Qiusheng is a senior expert in accounting standards consultation and corporate mergers and acquisitions.

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 Board has informed each of the Directors and Supervisors in advance that during the prescribed period in the Model code, they shall net deal with the securities of the Company. 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 declare that they are responsible for preparing the financial statements which reflect a true and fair view of the state of affairs 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 are independent from each other.

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

The Directors 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, and the financial statements of the Company shall be prepared in accordance with the PRC laws, the disclosure requirements in Hong Kong Companies Ordinance and the relevant accounting standards.

REMUNERATION COMMITTEE

In accordance with the provisions of the Listing Rules, the Company has set up the Remuneration Committee with majority members being independent non-executive Directors. The Remuneration Committee comprises 5 Directors, with Mr. Luo Xiwen (independent non-executive Director) serving as the chairman, Mr. Chan Sau Shan, Gary (independent non-executive Director), Mr. Hong Xianguo (independent non-executive Director), Mr. Liu Yongle (non-executive Director) and Ms. Dong Jianhong (executive Director) serving as members. The terms of reference of the Remuneration Committee are set out as follows:

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

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

(c) to access performance of the executive Directors after taking into consideration of the Group's annual operating results and make recommendations to the Board.

During the Reporting Period, the Remuneration Committee convened 1 meeting to discuss matters relating to the remuneration of the Directors. All members of the Remuneration Committee attended the meeting. Details of the remuneration of the Directors are set out in Note 9 to the Consolidated Financial Statements in this Annual Report.

NOMINATION COMMITTEE

In accordance with the provisions of the Listing Rules, the Company set up the Nomination Committee with majority members being independent non-executive Directors on 20 August 2010. The Nomination Committee comprises 3 Directors, with Mr. Luo Xiwen (independent non-executive Director) serving as the chairman, Mr. Hong Xiangguo (independent non-executive Director) and Mr. Zhao Yanshui (Chairman and executive Director) serving as members. The terms of reference of the Nomination Committee are set out as follows:

(a) to make recommendations to the Board in respect of the size and composition of the Board based on the operating activities, asset scale and shareholding structure of the Company;

(b) to study the criteria and procedures for selection of the Directors and managers of the Company and make recommendations to the Board;

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

(d) other matters as authorized by the Board.

In respect of the election and change of Directors, the Nomination Committee adopts the relevant provisions of the Articles of Association which prescribe that the election and change of Directors are subject to consideration by shareholders at general meetings. Shareholders holding 5% or more (including 5%) of the total number of voting shares 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 qualified shareholder as abovementioned 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. Such announcement or supplementary circular shall include information of the candidate(s) nominated as Director(s). The Company must also assess whether it is necessary to adjourn the general meeting for election of the Director(s) 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. More than half of the voting rights held by the shareholders (including their proxies) present at the general meeting is required for approval of election of new Director(s).

The Company nominates its Directors on the basis of, among others, professional qualification, management expertise and experience, fairness and objectiveness, diligence and fidelity, as well as level of knowledge.

During the Reporting Period, the Nomination Committee convened 1 meeting to discuss the nomination of candidates for the General Manager of the Company and nominated Mr. Liu Jiguo as the General Manager to the Board. All members of the Nomination Committee attended the meeting.

AUDITORS' REMUNERATION

During the Reporting Period, UHY Hong Kong and VICPA worked as the international and PRC auditors of the Group respectively and undertook the preparation of the Group's financial statements for the year ended 31 December 2009 and for the first half year ended 30 June 2010 in accordance with the Hong Kong Financial Reporting Standards and PRC Accounting Standards.

VICPA charged the auditors' remuneration of RMB2,130,000 for the audit fee for the year 2009 and the fees for preparing the financial statements of the Group for the first half year ended 30 June 2010.

Baker Tilly Hong Kong was appointed as the Company's international auditor at the extraordinary general meeting of the Company held on 28 January 2011, which, together with VICPA, undertook the preparation of the Group's financial statements for the year ended 31 December 2010 in accordance with the Hong Kong Financial Reporting Standards and PRC Accounting Standards respectively.

AUDIT COMMITTEE

As required under the Listing Rules, the Company has set up the Audit Committee with majority members being independent non-executive Directors. As the date hereof, the Audit Committee consists of 3 Directors, with Mr. Chan Sau Shan, Gary (independent non-executive Director) as the chairman, Mr. Zhang Qiusheng (independent non-executive Director) and Mr. Yan Linjiao (non-executive Director) as members. The terms of reference thereof are in compliance with C.3.3 of the Governance Code set out in Appendix 14 to the Listing Rules as well as the relevant policies, laws and regulations applicable to the Company, including but not limited to:

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

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

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

(d) to make recommendations for proper operation of the Company, etc.

During the Reporting Period, the Audit Committee convened 3 meetings with the General Manager, the financial controller and the external auditors of the Company, at which the Group's 2009 financial report, 2010 interim financial report, implementation of the connected transactions during the Reporting Period as well as appointment and remuneration of the external auditors were considered respectively. In addition, the Audit Committee reviewed the accounting principles and practices adopted by the Group, discussed matters such as the internal control and financial reports as well as made comments and recommendations in respect thereof to the Board.

Attendance of members of the Audit Committee are as follows:

Position	Name	Number of attendance/ number of possible attendance
Chairman	Mr. Chan Sau Shan, Gary,	3/3
Members	Mr. Yan Linjiao	3/3
	Mr. Luo Xiwen (left his post on 20 August 2010)	2/2
	Mr. Zhang Qiusheng (appointed on 20 August 2010)	1/1

The Audit Committee has reviewed the 2010 financial report. There was no disagreement between the Audit Committee and the Board in relation to the change and appointment of the international auditors of the Company.

STRATEGY & INVESTMENT COMMITTEE

With reference to the needs of the Board in respect of the development strategy and material investment decisions of the Company, the Company set up the Strategy & Investment Committee on 20 August 2010. The Strategy & Investment Committee consists of 5 Directors, with Mr. Zhao Yanshui (Chairman of the Board and executive Director) serving as the chairman, Mr. Yan Linjiao (non-executive Director), Mr. Qu Dawei (non-executive Director) and Mr. Zhang Qiusheng (independent non-executive Director) as members. There is currently 1 vacancy to be filled in the Strategy & Investment Committee. The terms of reference of the Strategy & Investment Committee are set out as follows:

(a) to study the medium and long-term strategic development plans of the Company and make recommendations on the same;

(b) to study significant investments and financing proposals which are subject to the approval of the Board as required under the Articles of Association and relevant regulations of the Company and make recommendations on the same;

(c) to study material capital operations which are subject to the approval of the Board as required under the Articles of Association and relevant regulations of the Company and make recommendations on the same;

(d) to study significant events which may affect the development of the Company and make recommendations on the same;

(e) to inspect implementation of above matters; and

(f) other matters as authorized by the Board.

INTERNAL CONTROL

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

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

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The general meetings, being the highest authority of the Company, are important occasions where shareholders of the Company can exercise their rights and provide a channel for the Board and the shareholders of the Company to communicate directly for building a sound relationship. The Board has been committing to maintaining effective communications with shareholders of the Company. Shareholders of the Company have access to enquiry services such as contact information provided by the Board so that they are enabled to take appropriate actions after obtaining the information.

The shareholders of the Company comprise holders of domestic shares and holders of H Shares. Pursuant to the relevant provisions of the Articles of Association, holders of domestic shares and holders of H Shares may convene separate extraordinary general meetings to consider and approval relevant resolutions.

During the Reporting Period, 3 general meetings and 1 domestic shares class meeting and 1 H Shares class meeting were held by the Company, details of which are set out as follows:

1. The 2009 annual general meeting was held on 11 June 2010, at which the following matters were considered and approved: the report of the Board for the year 2009, the report of the Board of Supervisors for the year 2009, the audited financial report for the year 2009, the dividend distribution proposal for the year 2009, the appointment of the Company's international and PRC auditors for the year 2010 and the granting of authorization to the Board to determine their remunerations, the granting of authorization to the Board to determine matters related to investment, the granting of authorization to the Board to handle matters in relation to placement or issue of domestic shares and overseas listed foreign shares of the Company and the granting of authorization to the Board to distribute the interim dividend for the half year ended 30 June 2010 to the shareholders of the Company.

2. At the extraordinary general meeting held on 16 August 2010, the following matters were considered and approved: the proposal for the Issue of A Shares of the Company, the transfer of equity interests in certain subsidiaries in construction machinery business, the amendments to the Articles of Association, the connected transactions regarding the Financial Services Agreements, the appointment of Mr. Zhang Qiusheng as an independent non-executive Director, the Rules of Procedures for General Meetings, the Rules of Procedures for the Board Meetings and other relevant principles.

3. At the class meeting for holders of H Shares and the class meeting for holders of domestic shares held on 16 August 2010, the proposal for the Issue of A Shares was respectively considered and approved.

4. At the extraordinary general meeting held on 20 September 2010, the Decision Making Principles on Connected Transactions, the Decision Making Principles on Investments and Operation and the transaction in relation to the acquisition of 51% equity interests in Tractors Research Company were considered and approved.

At the aforementioned general meetings, shareholders voted on each separate matter by separate resolution and all resolutions were approved.

During the Reporting Period, in order to comply with the relevant requirements relating to the Issue of A shares, the Board made amendments to the Articles of Association, including the provisions regarding "shareholding structure", "transfer of equity interests" and "sale and purchase of shares" with approximately 138 amendments in total. The amendments to the Articles of Association were approved by shareholders at the extraordinary general meeting of the Company held on 16 August 2010 and shall take effect upon completion of the Issue of A shares. Other than these amendments, there was no other material change in the Articles of Association.

Details of the shareholder categories of the Company and total number of shareholdings were set out on page 41 to page 42 of this Annual Report. The market capitalization of the public float of the Company reached HK$3,493,293,100 as at 31 December 2010.

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

By order of the Board
Zhao Yanshui
Chairman

Luoyang, the PRC
25 March 2011

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, pursuant to the regulations set out in the Company Law of the People's Republic of China (the "**Company Law**") and the Articles of Association, the Board of Supervisors, 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 hereby present the report on behalf of the Board of Supervisors as follows:

REVIEW ON THE WORK OF THE BOARD OF SUPERVISORS FOR THE YEAR 2010

1. During the Reporting Period, the Board of Supervisors convened 3 meetings in accordance with the requirements of the Company Law and the Articles of Association.

    (1) The 3rd meeting of the fifth session of the Board of Supervisors was convened on 6 April 2010, at which all Supervisors were present and the following resolutions were considered and approved:

    i) approval of the report of the Board of Supervisors for the year 2009;

    ii) review of the financial report of the Company for the year 2009;

    iii) review of the distribution proposal of the Company in respect of the dividend for the year 2009.

    (2) The 4th meeting of the fifth session of the Board of Supervisors was convened on 28 June 2010, at which all Supervisors were present and the Rules of Procedures for the Board of Supervisors was considered and approved and was agreed to be submitted to the Company's general meeting for consideration and approval. The Rules of Procedures for the Board of Supervisors was approved by shareholders at the extraordinary general meeting of the Company held on 16 August 2010 and shall take effect upon completion of the Issue of A Shares.

    (3) The 5th meeting of the fifth session of the Board of Supervisors was convened on 16 August 2010, at which 5 of 6 eligible Supervisors were present and the 2010 interim financial report of the Company and the 2010 interim dividend distribution proposal of the Company were reviewed.

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.

3. Mr. Wang Jianjun was elected at the democratic management meeting of the staff representatives of the Company as a staff representative Supervisor on 8 December 2010, with a term of office from 8 December 2010 to 30 June 2012. Mr. Zhao Shengyao, due to reallocation of work, ceased to be a staff representative Supervisor from 8 December 2010.

   The Board of Supervisors expresses its appreciation to Mr. Zhao Shengyao for his contributions to the Board of Supervisors during his tenure of office.

INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS OF THE COMPANY FOR THE YEAR 2010

1. During the Reporting Period, the Board of Supervisors did not receive any report of or discover any violation of the Articles of Association, the laws and regulations and behaviours of the Company that infringed the its interests. In the opinion of the Board of Supervisors, the Board managed to standardize the 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 the interests of all shareholders and the Company.

2. During the Reporting Period, the Board of Supervisors did not have any negotiations with the Directors nor bring any actions against them on behalf of the Company.

3. The Board of Supervisors reviewed the recommendations on the Company's 2010 interim financial report, 2010 financial report, 2010 interim dividend distribution proposal and the proposal for distribution of 2010 final dividend. The Board of Supervisors considers that the above reports and proposals comply with the provisions of the relevant laws and regulations and the Articles of Association.

4. The Board of Supervisors considers that the financial statements of the Group for the year ended 31 December 2010 which have been audited by Baker Tilly Hong Kong and VICPA, reflect a true and fair view of the operating results and assets of the Group for this financial year.

In 2011, the Board of Supervisors will continue to perform their duties and responsibilities 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 Board of Supervisors
Zheng Lu Yu
Chairman of the Board of Supervisors

Luoyang, the PRC
25 March 2011

SUPPLEMENTARY INFORMATION

The following details are the supplementary information related to the Group's financial business, which forms part of the audited financial statements.

FINANCIAL BUSINESS

During the Reporting Period, all the Group's financial businesses were conducted in the PRC. The Group's financial businesses are primarily undertaken by YTO Finance, a 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 in respect of the products of its member companies.

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

YTO Finance has set up the Credit Review Committee. It has also established strict systems for customer credit investigation and assessment as the basis for formulating credit policies and determining the credit line to ensure that each credit transaction is subject to collective assessment and consideration. The Auditing Department of YTO Finance supervised the implementation of the credit review 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.

Liquidity risk

Liquidity risk (also known as payment risk) is the risk that a company is unable to finance for reducting liability or increasing 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 the corresponding operating polices to maximize the company's interests on the basis of payment guarantee. During the Reporting Period, YTO Finance 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 operation of YTO Finance.

With a series of internal control systems and policies to regulate its businesses, YTO Finance has specified duties and responsibilities 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, YTO Finance constantly improves its the overall operating and managerial standards and prevents 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 accountability system for compliance risk management, YTO Finance promotes honest and diligent work ethics and values while employing legal advisors with the compliance department to review the internal control system against the compliance risk. During the Reporting Period, China Banking Regulatory Commission (Luoyang Branch) conducted on-site inspection on YTO Finance and gave good rating to YTO Finance .

As at 31 December 2010, YTO Finance's capital adequacy ratio was 52.22%; statutory reserve deposits ratio was 13.5%; liquidity ratio was 83.69%; self-owned fixed assets investment ratio was 0.66%; investment ratio was 58.76%; non-performing loan ratio was 0; distressed assets ratio was 0; and the ratio of guarantee risk exposure to total capital was 6.04%. 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 2010 annual general meeting (the "**AGM**") of First Tractor Company Limited (the "**Company**") will be held at 9:00 a.m. on 17 June 2011 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**") for the purpose of passing the following resolutions:

(I) AS ORDINARY RESOLUTIONS:

1. To consider and approve the report of the board (the "**Board**") of directors (the "**Directors**") of the Company for the year 2010.

2. To consider and approve the report of the board of supervisors of the Company for the year 2010.

3. To consider and approve the audited financial report of the Company for the year 2010.

4. To consider and approve the distribution proposal of the Company in respect of the dividend for the year ended 31 December 2010.

5. To consider and approve the re-appointment of Baker Tilly Hong Kong Limited（天職香港會計師事務所有限公司, formerly known as 香港天華會計師事務所有限公司）and Vocation International Certified Public Accountants Company Limited as the international and PRC auditors of the Company for the year 2011 and to authorize the Board to determine the remunerations of the international and PRC auditors of the Company.

6. To consider and approve the appointment of Mr. Liu Jiguo as an executive Director.

7. To consider and approve the appointment of Mr. Su Weike as a non-executive Director.

8. To consider and approve the appointment of Mr. Li Youji as a non-executive Director.

(II) 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 (the "**Listing Rules**") in relation to, among other things, shareholders' approval, and other relevant provisions of the Listing Rules, and the accumulated limit not exceeding 50% of the latest audited net assets value of the Company (consolidated financial statements), to authorize the Board to determine matters related to investments 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 at 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 investments, 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 in; (iii) actual investment amounts; (iv) actual investment methods (including by way of issuance of domestic shares or overseas listed foreign shares); (v) arrangement for actual time of investments, within the period from the date of convening 2010 annual general meeting to the date of convening 2011 annual general meeting.

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 2011.

Luoyang, the PRC
27 April 2011

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

Notes:

1. The register of members of the Company will be temporarily closed from 18 May 2011 to 16 June 2011 (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 17 May 2011 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 17 May 2011 are entitled to attend the AGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Shares 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 proxies shall only exercise their 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 Shares 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 by or before 4:00 p.m., 27 May 2011.

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

INDEPENDENT AUDITOR'S REPORT

BAKER TILLY
HONG KONG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
天職香港會計師事務所有限公司
12th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
香港干諾道中168-200號信德中心招商局大廈12樓

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 73 to 216, which comprise the consolidated and company's statements of financial position as at 31 December 2010, and 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BAKER TILLY HONG KONG LIMITED
Certified Public Accountants

Andrew David Ross
Practising Certificate Number P01183

Hong Kong, 25 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Revenue	6	**10,132,335**	9,004,986
Cost of sales		**(8,669,392)**	(7,718,204)
Gross profit		**1,462,943**	1,286,782
Other income and gains	6	**214,007**	82,310
Selling and distribution costs		**(340,222)**	(297,962)
Administrative expenses		**(617,861)**	(621,071)
Other operating expenses		**(47,444)**	(61,080)
Finance costs	8	**(27,205)**	(15,040)
Share of profits/(losses) of associates		**1,247**	(6,743)
Profit before income tax	7	**645,465**	367,196
Income tax expense	11	**(83,594)**	(85,284)
Profit for the year		**561,871**	281,912
Profit attributable to:			
Equity holders of the Company	12	**542,361**	248,551
Non-controlling interests		**19,510**	33,361
		561,871	281,912
Dividends	13	**169,180**	101,508
Earnings per share attributable to the equity holders of the Company			
Basic and diluted earnings per share	14	**RMB64.12 cents**	RMB29.38 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000 (Restated)
Profit for the year	**561,871**	281,912
Other comprehensive income:		
Currency translation differences	**(961)**	1,491
Fair value (loss)/gain of available-for-sale financial assets, net of tax	**(6,580)**	46,275
Deferred income recognised	**7,990**	—
Other comprehensive income for the year, net of tax	**449**	47,766
Total comprehensive income for the year	**562,320**	329,678
Attributable to:		
Equity holders of the Company	**541,913**	297,262
Non-controlling interests	**20,407**	32,416
Total comprehensive income for the year	**562,320**	329,678

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	15	**1,814,315**	1,221,258	1,208,873
Investment properties	16	**35,302**	—	—
Prepaid operating leases	17	**190,062**	76,689	79,158
Goodwill	18	**—**	—	—
Interests in associates	20	**15,121**	14,281	21,503
Available-for-sale financial assets	21	**289,465**	168,476	106,959
Loan receivables	22	**44,858**	135,278	214,123
Deferred income tax assets	39	**38,679**	59,243	49,107
Total non-current assets		**2,427,802**	1,675,225	1,679,723
Current assets				
Inventories	23	**1,329,527**	1,023,871	846,241
Trade and bill receivables	24	**1,537,778**	894,782	826,366
Loan receivables	22	**503,231**	442,123	338,352
Prepayments, deposits and other receivables	25	**451,442**	584,444	468,123
Tax recoverable		**2,672**	1,728	5,706
Financial assets at fair value through profit or loss	27	**251,994**	28,942	4,444
Held-to-maturity financial assets	28	**1,000**	11,140	—
Placements with banks and non-bank financial institutions	29	**350,000**	—	—
Pledged bank deposits	30	**175,728**	294,197	366,357
Cash and cash equivalents	30	**1,162,162**	929,060	773,545
		5,765,534	4,210,287	3,629,134
Assets of disposal group classified as held for sale		**—**	—	317,012
Total current assets		**5,765,534**	4,210,287	3,946,146

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)
Current liabilities				
Trade and bill payables	31	**1,996,330**	1,680,880	1,456,017
Other payables and accruals	32	**653,859**	425,748	439,970
Customer deposits	33	**551,207**	280,736	188,802
Repurchase agreements	34	**99,500**	—	—
Placements from banks and non-bank financial institutions	35	**100,000**	—	—
Borrowings	36	**405,258**	143,000	217,000
Current income tax liabilities		**29,554**	62,970	13,403
Provisions	37	**69,405**	36,369	28,084
		3,905,113	2,629,703	2,343,276
Liabilities of disposal group classified as held for sale		**—**	—	206,263
Total current liabilities		**3,905,113**	2,629,703	2,549,539
Net current assets		**1,860,421**	1,580,584	1,396,607
Total assets less current liabilities		**4,288,223**	3,255,809	3,076,330

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)	2008 RMB'000 (Restated)
Non-current liabilities				
Borrowings	36	**600,000**	—	144,000
Deferred income	38	**106,748**	115,597	113,638
Deferred income tax liabilities	39	**27,062**	13,109	4,332
Provisions	37	**76,090**	88,200	35,581
Total non-current liabilities		**809,900**	216,906	297,551
Net assets		**3,478,323**	3,038,903	2,778,779
Equity				
Attributable to the equity holders of the Company				
Share capital	40	**845,900**	845,900	845,900
Reserves	41(a)	**2,169,376**	1,858,841	1,669,261
Proposed final dividend	13	**67,672**	101,508	42,295
		3,082,948	2,806,249	2,557,456
Non-controlling interests		**395,375**	232,654	221,323
Total equity		**3,478,323**	3,038,903	2,778,779

Zhao Yanshui
Director

Qu Dawei
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to the equity holders of the Company														
	Note	Share capital RMB'000 Note 40	Share premium RMB'000 Note 41(a)	Capital reserve RMB'000 Note 41(a)	Statutory surplus reserve RMB'000 Note 41(a)	General surplus reserve RMB'000 Note 41(a)	Reserve fund RMB'000 Note 41(a)	Enterprise expansion fund RMB'000 Note 41(a)	General and statutory fund RMB'000 Note 41(a)	Available-for-sale financial assets reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009																
As previously reported		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
Effect of adopting AG5	2.1(a)	—	—	(52,990)	—	—	—	—	—	—	—	—	—	(52,990)	—	(52,990)
Acquisition of LTRI	45	—	—	30,142	—	—	—	—	—	—	—	15,418	—	45,560	43,772	89,332
As restated		845,900	1,539,938	(22,848)	113,519	64,744	3,590	2,573	5,145	24,546	(11,673)	(50,273)	42,295	2,557,456	221,323	2,778,779
Comprehensive income																
Profit for the year		—	—	—	—	—	—	—	—	—	—	248,551	—	248,551	33,361	281,912
Other comprehensive income																
Change in fair value of available-for-sale financial assets, net of tax		—	—	—	—	—	—	—	—	46,212	—	—	—	46,212	63	46,275
Currency translation differences		—	—	—	—	—	—	—	—	—	2,499	—	—	2,499	(1,008)	1,491
Total other comprehensive income		—	—	—	—	—	—	—	—	46,212	2,499	—	—	48,711	(945)	47,766
Total comprehensive income		—	—	—	—	—	—	—	—	46,212	2,499	248,551	—	297,262	32,416	329,678
Transactions with owners																
Contributions from non-controlling shareholders of a subsidiary		—	—	—	—	—	—	—	—	—	—	—	—	—	54,818	54,818
Disposal of subsidiaries	44	—	—	—	—	—	—	—	—	—	—	—	—	—	(69,779)	(69,779)
Deemed disposal of subsidiaries		—	—	(130)	—	—	—	—	—	—	—	—	—	(130)	130	—
Dividends paid to non-controlling shareholders		—	—	—	—	—	—	—	—	—	—	—	—	—	(864)	(864)
Dividend paid to former shareholders of a subsidiary relating to business combination under common control		—	—	—	—	—	—	—	—	—	—	(5,610)	—	(5,610)	(5,390)	(11,000)
Final 2008 dividend declared		—	—	—	—	—	—	—	—	—	—	(434)	(42,295)	(42,729)	—	(42,729)
Proposed final 2009 dividend	13	—	—	—	—	—	—	—	—	—	—	(101,508)	101,508	—	—	—
Transfers (from)/to reserves	41(a)	—	—	—	24,020	—	(3,590)	(2,573)	319	—	—	(18,176)	—	—	—	—
Total transactions with owners		—	—	(130)	24,020	—	(3,590)	(2,573)	319	—	—	(125,728)	59,213	(48,469)	(21,085)	(69,554)
Balance at 31 December 2009		845,900	1,539,938*	(22,978)*	137,539*	64,744*	—	—	5,464*	70,758*	(9,174)*	72,550*	101,508	2,806,249	232,654	3,038,903

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 December 2010

		Attributable to the equity holders of the Company														
	Note	Share capital RMB'000 Note 40	Share premium RMB'000 Note 41(a)	Capital reserve RMB'000 Note 41(a)	Statutory surplus reserve RMB'000 Note 41(a)	General surplus reserve RMB'000 Note 41(a)	Reserve fund RMB'000 Note 41(a)	Enterprise expansion fund RMB'000 Note 41(a)	General and statutory fund RMB'000 Note 41(a)	Available-for-sale financial assets reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010																
As previously reported		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
Effect of adopting AG5	2.1(a)	–	–	(52,990)	–	–	–	–	–	–	–	–	–	(52,990)	–	(52,990)
Acquisition of LTRI	45	–	–	30,142	–	–	–	–	–	–	–	13,871	–	44,013	42,286	86,299
As restated		845,900	1,539,938	(22,978)	137,539	64,744	–	–	5,464	70,758	(9,174)	72,550	101,508	2,806,249	232,654	3,038,903
Comprehensive income																
Profit for the year		–	–	–	–	–	–	–	–	–	–	542,361	–	542,361	19,510	561,871
Other comprehensive income																
Change in fair value of available-for-sale financial assets, net of tax		–	–	–	–	–	–	–	–	(7,165)	–	–	–	(7,165)	585	(6,580)
Currency translation differences		–	–	–	–	–	–	–	–	–	(1,273)	–	–	(1,273)	312	(961)
Deferred income recognised	38	–	–	7,990	–	–	–	–	–	–	–	–	–	7,990	–	7,990
Total other comprehensive income		–	–	7,990	–	–	–	–	–	(7,165)	(1,273)	–	–	(448)	897	449
Total comprehensive income		–	–	7,990	–	–	–	–	–	(7,165)	(1,273)	542,361	–	541,913	20,407	562,320
Transactions with owners																
Contributions from non-controlling shareholders of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	22,000	22,000
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	(3,304)	(3,304)
Acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	–	–	–	2,170	2,170
Acquisition of additional interest in a subsidiary	42	–	–	(185)	–	–	–	–	–	–	–	–	–	(185)	(954)	(1,139)
Disposal part of interests of subsidiaries to non-controlling shareholders		–	–	(304)	–	–	–	–	–	–	–	–	–	(304)	32,449	32,145
Acquisition of LTRI		–	–	(61,709)	–	–	–	–	–	–	–	–	–	(61,709)	89,953	28,244
Final 2009 dividend declared	13	–	–	–	–	–	–	–	–	–	–	–	(101,508)	(101,508)	–	(101,508)
Interim 2010 dividend declared	13	–	–	–	–	–	–	–	–	–	–	(101,508)	–	(101,508)	–	(101,508)
Proposed final 2010 dividend	13	–	–	–	–	–	–	–	–	–	–	(67,672)	67,672	–	–	–
Transfers (from)/to reserves	41(a)	–	–	–	21,971	–	–	–	368	–	–	(22,339)	–	–	–	–
Total transactions with owners		–	–	(62,198)	21,971	–	–	–	368	–	–	(191,519)	(33,836)	(265,214)	142,314	(122,900)
Balance at 31 December 2010		845,900	1,539,938*	(77,186)*	159,510*	64,744*	–	–	5,832*	63,593*	(10,447)*	423,392*	67,672	3,082,948	395,375	3,478,323

* These reserve accounts comprise the consolidated reserves of approximately RMB2,169,376,000 (2009: approximately RMB1,858,841,000).

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Operating activities			
Profit before income tax		**645,465**	367,196
Adjustments for:			
Finance costs	8	**27,205**	15,040
Share of (profits)/losses of associates		**(1,247)**	6,743
Bank interest income	6, 7	**(14,852)**	(9,989)
(Gain)/loss on disposal of property, plant and equipment, net	7	**(4,948)**	161
Gain on disposal of subsidiaries	6, 7	**(108,779)**	(29,648)
Depreciation of			
— Property, plant and equipment	7, 15	**153,656**	105,803
— Investment properties	7, 16	**270**	—
Amortisation of prepaid operating leases	7, 17	**3,219**	1,561
Impairment of property, plant and equipment	7, 15	**2,075**	14,878
Dividend income from listed investments	6, 7	**(3,212)**	(1,600)
Dividend income from unlisted investments	6, 7	**(4,328)**	(5,471)
Gain on disposal of financial assets at fair value through profit or loss, net	6, 7	**(2,153)**	(2,446)
Gain on disposal of available-for-sale financial assets, net	6, 7	**(14,127)**	(6,606)
Provision for impairment of trade and bill receivables, net	7, 24	**7,235**	20,663
Provision for impairment of other receivables, net	7, 25	**4,523**	11,229
Provision for impairment of loan receivables, net	7, 22	**1,663**	234
Provision for/(reversal of) impairment of inventories, net	7	**8,815**	(585)
Recognition of government grants	6	**(14,074)**	(7,496)
Fair value gain on financial assets at fair value through profit or loss, net	6, 7	**(1,947)**	(4,708)
Fair value gain on remeasurement of interests in associates	6, 7	**(11,832)**	—
Operating cash flows before changes in working capital		**672,627**	474,959

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Increase in inventories		**(561,962)**	(179,996)
Increase in trade and bill receivables		**(770,017)**	(102,819)
Decrease/(increase) in loan receivables		**103,050**	(25,160)
Decrease/(increase) in prepayments, deposits and other receivables		**104,700**	(245,898)
Increase in financial assets at fair value through profit or loss		**(218,952)**	(17,344)
Increase in placements with bank and non-bank financial institutions		**(350,000)**	—
(Increase)/decrease in mandatory reserve deposits with the People's Bank of China		**(97,048)**	11,420
Increase in trade and bill payables		**658,146**	274,119
Increase in other payables and accruals		**252,177**	60,381
Increase in customer deposits		**270,471**	91,934
Increase in repurchase agreements		**99,500**	—
Increase in placements from bank and non-bank financial institutions		**100,000**	—
Increase in bills discounted payables		**284,375**	—
Increase in provisions		**31,316**	58,755
Cash generated from operations		**578,383**	400,351
Interest received		**14,852**	9,989
Income tax paid		**(95,060)**	(41,642)
Net cash generated from operating activities		**498,175**	368,698

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

For the year ended 31 December 2010

	Note	**2010** ***RMB'000***	2009 *RMB'000* (Restated)
Investing activities			
Dividend received from listed investments	6, 7	**3,212**	1,600
Dividend received from unlisted investments	6, 7	**4,328**	5,471
Purchase of property, plant and equipment	15	**(868,675)**	(183,207)
Proceeds from disposal of property, plant and equipment		**48,285**	43,809
Purchase of prepaid operating leases	17	**(88,432)**	(655)
Purchase of available-for-sale financial assets		**(123,474)**	(8,822)
Proceeds from disposal of available-for-sale financial assets		**18,690**	7,065
Purchase of held-to-maturity financial assets		**—**	(11,000)
Receipt from the maturity of held-to-maturity financial assets		**10,215**	—
Dividends received from an associate		**—**	479
Receipt of government grants		**13,215**	9,455
Repayment of designated loans from a former subsidiary		**11,500**	—
Business combination of LTRI under common control	45	**(155,333)**	—
Acquisition of additional interest in a subsidiary	42	**(1,139)**	—
Acquisition of subsidiaries	43	**972**	—
Disposal of subsidiaries	44	**101,191**	51,216
Net cash used in investing activities		**(1,025,445)**	(84,589)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Financing activities			
Interest paid		**(27,205)**	(15,040)
Proceeds from borrowings		**1,760,389**	304,500
Repayments of borrowings		**(1,186,506)**	(515,000)
Contributions from non-controlling shareholders of subsidiaries		**22,000**	54,818
Contributions from a former shareholder of business combination of LTRI under common control		**183,577**	—
Dividends paid by the Company		**(203,016)**	(42,729)
Dividends paid to non-controlling shareholders		**(3,304)**	(864)
Dividends paid to a former shareholder of business combination of LTRI under common control		**—**	(11,000)
Net cash generated from/(used in) financing activities		**545,935**	(225,315)
Net increase in cash and cash equivalents		**18,665**	58,794
Effect of exchange rate changes, net		**(1,080)**	1,491
Cash and cash equivalents at beginning of year		**1,166,998**	1,106,713
Cash and cash equivalents at end of year		**1,184,583**	1,166,998
Analysis of balances of cash and cash equivalents			
Cash and bank balances	30	**1,184,583**	1,166,998

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,121,319**	774,891
Prepaid operating leases	17	**66,400**	67,774
Interests in subsidiaries	19	**1,137,246**	847,538
Interests in associates	20	**12,000**	11,696
Available-for-sale financial assets	21	**103,201**	126,865
Deferred income tax assets	39	**27,895**	52,238
Total non-current assets		**2,468,061**	1,881,002
Current assets			
Inventories	23	**869,880**	471,163
Trade and bill receivables	24	**794,052**	657,799
Prepayments, deposits and other receivables	25	**294,785**	369,390
Due from subsidiaries	19	**36,340**	112,744
Loans to subsidiaries	19	**99,000**	197,489
Deposits placed with a subsidiary	19	**401,748**	99,396
Pledged bank deposits	30	**127,000**	188,920
Cash and cash equivalents	30	**192,072**	267,107
Total current assets		**2,814,877**	2,364,008
Current liabilities			
Trade and bill payables	31	**1,339,061**	993,108
Other payables and accruals	32	**231,127**	110,261
Borrowings	36	**94,883**	100,000
Current income tax liabilities		**11,122**	39,901
Provisions	37	**29,240**	21,210
Total current liabilities		**1,705,433**	1,264,480
Net current assets		**1,109,444**	1,099,528
Total assets less current liabilities		**3,577,505**	2,980,530

STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Non-current liabilities			
Borrowings	36	**600,000**	—
Deferred income	38	**91,034**	97,593
Deferred income tax liabilities	39	**8,937**	12,487
Provisions	37	**65,840**	62,630
Total non-current liabilities		**765,811**	172,710
Net assets		**2,811,694**	2,807,820
Equity			
Share capital	40	**845,900**	845,900
Reserves	41(b)	**1,898,122**	1,860,412
Proposed final dividend	13	**67,672**	101,508
Total equity		**2,811,694**	2,807,820

Zhao Yanshui
Director

Qu Dawei
Director

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

1. GENERAL INFORMATION

First Tractor Company Limited (the "Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered office and principal place of business of the Company is located at 154 Jian She Road, Luoyang, Henan Province, the PRC. The Company 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 19. Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group". During the year, the Group is engaged in the following principal activities, mainly in the PRC:

- manufacture and sale of agricultural machinery
- manufacture and sale of construction machinery
- manufacture and sale of diesel engines, fuel injection pumps and fuel jets
- provision of loans, bills discounting and deposit-taking services

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"), which is also the functional currency of the Group, and all values are rounded to the nearest thousand unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 at fair value through profit or loss.

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

2.1 Basis of preparation *(continued)*

The preparation of the consolidated 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.

(a) Changes in accounting policies

The consolidated financial statements include the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Purchase method of accounting is used to account for the acquisitions of subsidiaries not under common control. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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. Under this method, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

As further explained below, the method of accounting for acquisitions of subsidiaries under common control has been changed from purchase method to merger accounting in the year ended 31 December 2010. Merger accounting involves incorporating the consolidated financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first come under the control of the controlling party. The net assets of the Group and the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the acquired subsidiaries' identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control. The consolidated income statements include the results of the Group and the acquired subsidiaries under common control from 1 January 2009, the earliest date presented, or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the business combinations under common control.

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

2.1 Basis of preparation *(continued)*

(a) Changes in accounting policies *(continued)*

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

In prior years, the Group adopted "purchase accounting" under HKFRS 3 *Business Combinations* to account for business combinations under common control which resulted in goodwill amounting to approximately RMB52,990,000 as at 31 December 2009. In the current year, the Group decided to change its accounting policy for business combinations under common control and adopt "merger accounting" as prescribed in AG 5 *Merger Accounting for Common Control Combinations*.

The Company's directors are of the view that applying the new accounting policies as described above will minimise the differences between the financial statements prepared under the China Accounting Standards and HKFRSs, and can provide more comparable and relevant information to the readers of the consolidated financial statements in the PRC and overseas. This change in accounting policies has been accounted for retrospectively and the consolidated financial statements for the year ended 31 December 2009 have been restated in order to comply with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The effect on the consolidated financial statements arising from the aforementioned change in accounting policies is as follows:

	31 December 2010 ***RMB'000***	31 December 2009 *RMB'000*	1 January 2009 *RMB'000*
Decrease in goodwill - at cost and net book value	**(52,990)**	(52,990)	(52,990)
Decrease in total equity	**(52,990)**	(52,990)	(52,990)
of which, effect to profit for the year	**—**	—	—
Effect in basic and diluted earnings per share	**—**	—	—

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

2.1 Basis of preparation *(continued)*

(a) Changes in accounting policies *(continued)*

The Group and certain acquired subsidiaries are under common control of the Holding company. The Group has applied merger accounting as prescribed in AG 5 to account for the purchases of the equity interests in these acquired subsidiaries, as if the acquisitions had occurred and these acquired subsidiaries had combined from 1 January 2009, the beginning of the earliest financial period of the consolidated financial statements presented.

The net assets of the Group and these acquired subsidiaries are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of these acquired subsidiaries' identifiable assets, liabilities and contingent liabilities over costs of acquisitions at the time of the business combinations under common control. The consolidated income statement includes the results of the Group and these acquired subsidiaries from 1 January 2009, the earliest date presented, regardless of the date of the business combinations under common control.

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

Transaction costs, such as professional fees, registration fees, or costs of furnishing information to shareholders, incurred in relation to business combinations under common control that are to be accounted for by using merger accounting are recognised as expenses in the year in which they are incurred.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs, Amendments to HKFRSs and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("new and revised HKFRSs").

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) - Int 18	Transfer of Assets from Customers
HK - Int 4 (Amendments)	Determination of the Length of Lease Term in respect of Hong Kong Land Lease
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 3 (as revised in 2008) *Business Combinations*

HKFRS 3 (as revised in 2008) has been applied in the current year to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

HKFRS 3 (as revised in 2008) *Business Combinations* *(continued)*

— HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of subsidiaries as disclosed in Note 43, the Group has elected to measure the non-controlling interests at the non-controlling interests' share of recognised identifiable net assets of the acquiree. Accordingly, no additional goodwill has been recognised and no effect on profit or loss has resulted as a result of the application of HKFRS 3 (as revised in 2008).

— HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. In the current year, in accounting for the acquisition of subsidiaries as disclosed in Note 43, there is no contingent consideration as specified in the respective sales and purchase agreements.

— HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. In the current year, in accounting for the acquisition of subsidiaries as disclosed in Note 43, total acquisition-related costs of approximately RMB36,000 are recognised as an expense in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in profit for the year of approximately RMB36,000 included in administrative expenses.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

HKAS 27 (as revised in 2008) *Consolidated and Separate Financial Statements*

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional interests in a subsidiary, Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") as disclosed in Note 42, that do not result in a change in control in the current year. For the acquisition of additional interests in YLTM, the change in policy has resulted in the difference of approximately RMB185,000 between the consideration paid of approximately RMB1,139,000 and the non-controlling interests recognised of approximately RMB954,000 being recognised directly in equity, instead of in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of approximately RMB185,000. In addition, the cash consideration paid in the current year of approximately RMB1,139,000 has been included in cash flows used in investing activities.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

HKAS 27 (as revised in 2008) *Consolidated and Separate Financial Statements* *(continued)*

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 (except for the amendments to HKFRS 3 (as revised in 2008))[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 disclosures for First-Time Adopters[3]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 February 2010.

3 Effective for annual periods beginning on or after 1 July 2010.

4 Effective for annual periods beginning on or after 1 January 2011.

5 Effective for annual periods beginning on or after 1 July 2011.

6 Effective for annual periods beginning on or after 1 January 2012.

7 Effective for annual periods beginning on or after 1 January 2013.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

New and revised HKFRSs issued but not yet effective *(continued)*

The amendments to HKFRS 7 titled *Disclosures - Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The directors do not anticipate that the application of these amendments to HKFRS 7 will have a significant effect on the Group's disclosures.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

New and revised HKFRSs issued but not yet effective *(continued)*

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and it is impracticable to estimate the impact of the application of the new Standard may have on amounts reported in respect of the Groups' financial assets and financial inabilities.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors do not anticipate that the application of the amendments to HKAS 12 will have any impact on deferred tax recognised as the investment properties of the Group are stated at cost less depreciation and any accumulated impairment losses.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) provide relief from disclosure of information by the Group in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. Disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because there may be newly-identified transaction counterparties as related parties not identified in previous accounting periods.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

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

2.1 Basis of preparation *(continued)*

(b) Application of new and revised HKFRSs *(continued)*

New and revised HKFRSs issued but not yet effective *(continued)*

HK (IFRIC) — Int 14 (Amendments) clarifies the accounting treatment for prepayments under a minimum funding requirement. Such a prepayment would be recognised as an asset, on the basis that the entity has a future economic benefit from the prepayment in the form of reduced future minimum funding requirement contributions relating to future service.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) — Int 19 will affect the required accounting. In particular, under HK(IFRIC) — Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

2.2 Consolidation

(a) Business combination

(i) Merger accounting for common control combinations

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

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

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

2.2 Consolidation *(continued)*

(a) Business combination *(continued)*

(i) Merger accounting for common control combinations *(continued)*

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

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

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

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

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

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

2.2 Consolidation *(continued)*

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements 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 2.11). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

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

2.2 Consolidation *(continued)*

(c) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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 other comprehensive income is recognised in other comprehensive income. 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.

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

2.2 Consolidation *(continued)*

(d) Associates *(continued)*

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.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.4 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 other comprehensive income.

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

(c) Group companies

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

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

2.5 Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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" (Note 2.9). 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.

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 2.11).

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.

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

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

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

2.6 Prepaid operating leases

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

2.7 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 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.

2.8 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation are stated at cost less depreciation and any accumulated impairment losses.

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

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

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

2.9 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 and a sale is considered highly probable.

2.10 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.

2.11 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 impairments are reviewed for possible reversal of the impairment at each of the end of reporting period.

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

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

2.12 Financial assets

2.12.1 Classification

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

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

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

(i) 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 if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Financial assets designated at fair value through profit or loss

A financial instrument may be designated as a financial asset at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below, and is so designated by management.

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;

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

2.12 Financial assets *(continued)*

2.12.1 Classification *(continued)*

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

(ii) Financial assets designated at fair value through profit or loss *(continued)*

- It applies to a group of financial assets which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial assets is provided internally on that basis to key management personnel; or

- The financial instrument contains an embedded derivative, unless the embedded derivatives does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Financial assets designated at fair value through profit or loss mainly include investments in funds.

(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. The Group's loans and receivables comprise 'trade and bill receivables', 'loan receivables', 'prepayments, deposits and other receivables', 'placements with banks and non-bank financial institutions', 'pledged bank deposits' and 'cash and cash equivalents' in the statement of financial position.

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

2.12 Financial assets *(continued)*

2.12.1 Classification *(continued)*

(b) Loans and receivables *(continued)*

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

(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.

(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.

2.12.2 Recognition and measurement

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

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

2.12 Financial assets *(continued)*

2.12.2 Recognition and measurement *(continued)*

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

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

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

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

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

2.13 Offsetting financial instruments

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

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

2.14 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 re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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.

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

2.14 Impairment of financial assets *(continued)*

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

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment as 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.

(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)*

2.15 Repurchase agreements

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

2.16 Inventories

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

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

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

2.18 Cash and cash equivalents

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

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

2.19 Trade and other payables

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

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

2.20 Borrowings

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

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

Borrowings are classified as current liabilities where the Group has unconditional right to defer settlement of a liability for at least 12 months after the end of the reporting period.

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

2.21 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 future expenditure expected 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.

2.22 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.

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

2.22 Current and deferred income tax *(continued)*

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 for deferred income tax liabilities 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.

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

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

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

2.25 Share capital

Ordinary shares are classified as equity.

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

2.26 Employee benefits

(a) 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 payment once the contributions has been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

2.27 Revenue recognition

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

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

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

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

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

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

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

2.28 Government grants

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

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

2.28 Government grants *(continued)*

As explained in Note 38, certain government grants obtained are treated as deferred income in the consolidated, and the Company's, statements of financial position and credited to the other comprehensive income in accordance with conditions set by the government body.

2.29 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 capitalisation has been applied to the expenditure on the individual assets.

2.30 Leases

(a) 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.

(b) The Group as lessee

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

2.31 Dividends

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

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

2.32 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).

2.33 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 foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

The business of the Group is principally located in the PRC. As most of the transactions are in RMB, the Group does not have significant exposure to foreign currency risk. As at 31 December 2010, the Group had short term deposits denominated in United States dollars ("US$") and Hong Kong dollars ("HK$") of approximately RMB1,089,000 (2009: approximately RMB81,428,000) and approximately RMB8,536,000 (2009: approximately RMB30,319,000) (Note 30), respectively. 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 and United States dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Exchange rates of HK$ and US$ increase/ (decrease)	**Increase/ (decrease) in profit before income tax**
	%	*RMB'000*
2010		
If Renminbi strengthens against HK$ and US$	**(5)**	**(481)**
If Renminbi weakens against HK$ and US$	**5**	**481**
2009		
If Renminbi strengthens against HK$ and US$	(5)	(5,587)
If Renminbi weakens against HK$ and US$	5	5,587

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Price risk

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

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

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

	31 December 2010	**High/low 2010**	31 December 2009	High/low 2009
Hong Kong Exchange				
— Hang Seng Index	**23,035**	**24,989/18,972**	21,783	23,100/11,345
Shanghai Stock Exchange				
— SSE Composite Index	**2,808**	**3,307/2,320**	3,277	3,478/1,844
Shenzhen Stock Exchange				
— SZSE Component Index	**12,459**	**13,937/8,945**	13,700	14,097/6,514

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Price risk *(continued)*

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

	Group			
	Impact on post-tax profit		Impact on other components of equity	
	RMB'000		*RMB'000*	
	2010	2009	**2010**	2009
Hang Seng Index	**812**	674	**—**	—
SSE Composite Index	**1,388**	6	**13,109**	10,252
SZSE Component Index	**2,228**	246	**5,539**	309

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

(iii) Interest rate risk

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk *(continued)*

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

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

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

	Group	
	Increase in basis points	**Profit before income tax increase/ (decrease)**
	%	*RMB'000*
2010	**+1**	**(1,439)**
2009	+1	2,576

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk *(continued)*

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

	2010 Interest rate %	2009 Interest rate %
Assets		
Loan receivables	**3.83–6.07**	4.43–7.25
Placements with bank and non-bank financial institutions	**6.00–6.50**	—
Cash and cash equivalents/pledge bank deposits	**0.36–2.75**	0.36–1.71
Liabilities		
Customer deposits	**0.36–2.75**	1.71–4.50
Placements from banks and non-bank financial institutions	**6.40**	—
Borrowings	**4.05–6.37**	4.85–6.90

(b) Credit risk

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

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

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

For the Group's lending activities, YTO Finance 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 YTO Finance is responsible for the supervision over the implementation of the credit approving system and the post-credit inspection system.

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a finance loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 47.

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

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 36) so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the end of the reporting period, the Group held cash and cash equivalents of approximately RMB1,162,162,000 (2009: approximately RMB929,060,000) (Note 30), placements with banks and non-bank financial institutions of approximately RMB350,000,000 (2009: Nil) (Note 29) and trade and bill receivables of approximately RMB1,537,778,000 (2009: approximately RMB894,782,000) (Note 24) that are expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds listed equity securities for trading of approximately RMB9,384,000 (2009: approximately RMB28,942,000) (Note 27), which could be readily realised to provide a further source of cash should the need arise.

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

Group

	Within one year or repayable on demand *RMB'000*	One to two years *RMB'000*	Three to five years *RMB'000*	Total *RMB'000*
2010				
Borrowings	**417,262**	**650,162**	**—**	**1,067,424**
Trade and bill payables	**1,996,330**	**—**	**—**	**1,996,330**
Other payables	**280,175**	**—**	**—**	**280,175**
Customer deposits	**551,207**	**—**	**—**	**551,207**
Repurchase agreements	**99,500**	**—**	**—**	**99,500**
Placements from banks and non-bank financial institutions	**100,000**	**—**	**—**	**100,000**
	3,444,474	**650,162**	**—**	**4,094,636**

	Within one year or repayable on demand *RMB'000* (Restated)	One to two years *RMB'000* (Restated)	Three to five years *RMB'000* (Restated)	Total *RMB'000* (Restated)
2009				
Borrowings	145,505	—	—	145,505
Trade and bill payables	1,680,880	—	—	1,680,880
Other payables	227,491	—	—	227,491
Customer deposits	280,736	—	—	280,736
	2,334,612	—	—	2,334,612

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

Company

	Within one year or repayable on demand *RMB'000*	One to two years *RMB'000*	Three to five years *RMB'000*	Total *RMB'000*
2010				
Borrowings	**96,046**	**650,162**	**—**	**746,208**
Trade and bill payables	**1,339,061**	**—**	**—**	**1,339,061**
Other payables	**105,164**	**—**	**—**	**105,164**
	1,540,271	**650,162**	**—**	**2,190,433**
2009				
Borrowings	101,735	—	—	101,735
Trade and bill payables	993,108	—	—	993,108
Other payables	82,955	—	—	82,955
	1,177,798	—	—	1,177,798

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 2010 and 2009.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Borrowings	**1,005,258**	143,000
Trade and bills payables	**1,996,330**	1,680,880
Other payables and accruals	**653,859**	425,748
Customer deposits	**551,207**	280,736
Repurchase agreements	**99,500**	—
Placements from banks and non-bank financial institutions	**100,000**	—
Less : Cash and cash equivalents and pledged bank balances	**(1,337,890)**	(1,223,257)
Net debt	**3,068,264**	1,307,107
Total equity (excluding non-controlling interests)	**3,082,948**	2,806,249
Total equity and net debt	**6,151,212**	4,113,356
Gearing ratio	**50%**	32%

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

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

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

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

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
2010				
Assets				
Financial assets at fair value through profit or loss	**50,872**	**201,122**	**—**	**251,994**
Held-to-maturity financial assets	**1,000**	**—**	**—**	**1,000**
Available-for-sale financial assets				
— Equity securities	**186,481**	**—**	**102,984**	**289,465**
Total assets	**238,353**	**201,122**	**102,984**	**542,459**

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)	(Restated)
2009				
Assets				
Financial assets at fair value				
through profit or loss	28,942	—	—	28,942
Held-to-maturity financial assets	11,140	—	—	11,140
Available-for-sale financial assets				
— Equity securities	108,679	—	59,797	168,476
Total assets	148,761	—	59,797	208,558

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

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

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

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Specific valuation techniques used to value financial instruments include:

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

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

The movements in level 3 instruments are as follows:

	Available-for-sale financial assets	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Beginning of the year	**59,797**	58,802
Additions	**44,891**	1,454
Disposals	**(1,704)**	(459)
End of the year	**102,984**	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.

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

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.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2010 was approximately RMB1,814,315,000 (2009: approximately RMB1,221,258,000). More details are given in Note 15.

Impairment of trade and bill receivables

The policy for impairment of trade and bill receivables of the Group is based on the evaluation of the collectability and aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each of the end of the reporting period. The carrying amount of trade and bill receivables at 31 December 2010 was approximately RMB1,537,778,000 (2009: approximately RMB894,782,000). More details are given in Note 24.

Provision for obsolete inventories

Management reviews the condition of the inventories of the Group and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each of the end of the reporting period and makes provision for obsolete items. Management reassesses the estimation at each of the end of the reporting period. The carrying amount of inventories at 31 December 2010 was approximately RMB1,329,527,000 (2009: approximately RMB1,023,871,000). More details are given in Note 23.

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 miscellaneous expenditure which may be incurred. The carrying amount of provision for product warranties at 31 December 2010 was approximately RMB46,891,000 (2009: approximately RMB11,997,000). More details are given in Note 37.

Provision for early retirement benefits

The benefits of early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of such early retirees, discounted to their present values as appropriate. The carrying amount of provision for early retirement benefits at 31 December 2010 was approximately RMB98,604,000 (2009: approximately RMB112,572,000). More details are given in Note 37.

Income tax

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

Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred income tax assets at 31 December 2010 was approximately RMB38,679,000 (2009: approximately RMB59,243,000). More details are given in Note 39.

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

Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2010, impairment losses of approximately RMB2,123,000 (2009: 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 2010 was approximately RMB289,465,000 (2009: approximately RMB168,476,000). More details are given in Note 21.

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

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

(a) the "agricultural machinery" segment engages in the 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, fuel injection pumps and fuel jets.

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

5. SEGMENT INFORMATION *(continued)*

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

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2010.

	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	**8,010,095**	**851,065**	**45,960**	**1,225,215**	**—**	**10,132,335**
Intersegment sales (Note)	**609,909**	**79,242**	**15,746**	**716,850**	**(1,421,747)**	**—**
	8,620,004	**930,307**	**61,706**	**1,942,065**	**(1,421,747)**	**10,132,335**
Interest, dividend and investment income					**52,452**	
Gain on disposal of subsidiaries					**108,779**	
Corporate income, net					**1,123**	
Finance costs					**(27,205)**	
Share of profits of associates					**1,247**	
Profit before income tax	**254,647**	**37,464**	**37,058**	**179,900**	**136,396**	**645,465**
Income tax expense						**(83,594)**
Profit for the year						**561,871**

5. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2010. *(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	838,493	3,495	772	114,347	—	957,107
Depreciation of property, plant and equipment	100,624	11,579	379	41,074	—	153,656
Depreciation of investment properties	270	—	—	—	—	270
Amortisation of prepaid operating leases	3,037	178	4	—	—	3,219
Provision for product warranties	34,320	13,875	—	58,864	—	107,059
Impairment of property, plant and equipment	2,075	—	—	—	—	2,075
Provision for/(reversal of) impairment of trade receivables, net	13,171	(7,447)	—	1,511	—	7,235
Provision for/(reversal of) impairment of other receivables, net	3,746	—	(59)	836	—	4,523
Provision for/(reversal of) impairment of inventories, net	12,411	(563)	—	(3,033)	—	8,815
Provision for impairment of loan receivables, net	—	—	1,663	—	—	1,663
Statement of financial position						
Assets						
Segment assets	4,992,158	289,308	1,874,304	1,250,802	(866,803)	7,539,769
Interests in associates						15,121
Unallocated assets						638,446
Total consolidated assets						8,193,336
Liabilities						
Segment liabilities	2,169,448	254,261	1,341,829	629,825	(866,803)	3,528,560
Unallocated liabilities						1,186,453
Total consolidated liabilities						4,715,013

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 expenditure for the Group's business segments for the year ended 31 December 2009.

	Agricultural machinery *RMB'000* (Restated)	Construction machinery *RMB'000* (Restated)	Financial operations *RMB'000* (Restated)	Diesel engines and fuel jets *RMB'000* (Restated)	Unallocated and eliminations *RMB'000* (Restated)	Total *RMB'000* (Restated)
Income statement						
Revenue:						
Sales to external customers	6,845,261	922,508	33,254	1,203,963	—	9,004,986
Intersegment sales *(Note)*	521,134	40,760	14,801	629,399	(1,206,094)	—
	7,366,395	963,268	48,055	1,833,362	(1,206,094)	9,004,986
Interest, dividend and investment income					26,540	
Gain on disposal of subsidiaries					29,648	
Corporate expenses, net					(10,323)	
Finance costs					(15,040)	
Share of losses of associates					(6,743)	
Profit before income tax	204,695	(68,170)	33,376	173,213	24,082	367,196
Income tax expense						(85,284)
Profit for the year						281,912

5. SEGMENT INFORMATION *(continued)*

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

	Agricultural machinery *RMB'000* (Restated)	Construction machinery *RMB'000* (Restated)	Financial operations *RMB'000* (Restated)	Diesel engines and fuel jets *RMB'000* (Restated)	Unallocated and eliminations *RMB'000* (Restated)	Total *RMB'000* (Restated)
Other segment information:						
Capital expenditure	158,739	3,650	39	21,434	—	183,862
Depreciation of property, plant and equipment	56,407	15,979	422	32,995	—	105,803
Amortisation of prepaid operating leases	1,306	255	—	—	—	1,561
Provision for product 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	15,720	168	—	4,775	—	20,663
Provision for/(reversal of) impairment of other receivables, net	5,940	(584)	2,538	3,335	—	11,229
Provision for/(reversal of) impairment of inventories, net	6,879	(7,677)	—	213	—	(585)
Provision for impairment of loan receivables, net	—	—	234	—	—	234
Statement of financial position						
Assets						
Segment assets	3,225,855	738,789	840,060	944,490	(257,584)	5,491,610
Interests in associates						14,281
Unallocated assets						379,621
Total consolidated assets						5,885,512
Liabilities						
Segment liabilities	1,546,559	443,343	308,047	433,739	(257,584)	2,474,104
Unallocated liabilities						372,505
Total consolidated liabilities						2,846,609

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:

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Earnings before interest, tax, depreciation and amortisation of business segments	**666,214**	450,478
Depreciation of properties, plant and equipment	**(153,656)**	(105,803)
Depreciation of investment properties	**(270)**	—
Amortisation of prepaid operating leases	**(3,219)**	(1,561)
Corporate income/(expenses), net	**1,123**	(10,323)
Operating profit	**510,192**	332,791
Interest, dividend and investment income	**52,452**	26,540
Gain on disposal of subsidiaries	**108,779**	29,648
Finance costs	**(27,205)**	(15,040)
Share of profits/(losses) of associates	**1,247**	(6,743)
Profit before income tax	**645,465**	367,196

5. SEGMENT INFORMATION *(continued)*

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

Segment assets are summarised as below:

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Segment assets as allocated by business segments	**7,539,769**	5,491,610
Unallocated assets:		
Available-for-sale financial assets	**289,465**	168,476
Deferred income tax assets	**38,679**	59,243
Financial assets at fair value through profit or loss	**251,994**	28,942
Interests in associates	**15,121**	14,281
Others	**58,308**	122,960
Total assets as per consolidated statement of financial position	**8,193,336**	5,885,512

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

Segment liabilities are summarised as below:

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Segment liabilities as allocated by business segments	**3,528,560**	2,474,104
Unallocated liabilities:		
Borrowings	**1,005,258**	143,000
Deferred income tax liabilities	**27,062**	13,109
Provisions	**145,495**	124,569
Others	**8,638**	91,827
Total liabilities as per consolidated statement of financial position	**4,715,013**	2,846,609

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

6. REVENUE, OTHER INCOME AND GAINS

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

	Note	**2010** **RMB'000**	2009 *RMB'000* (Restated)
Revenue			
Sales of goods		**10,054,392**	8,908,102
Income on research and development		**31,983**	63,630
Interest income from financial operations	7	**45,960**	33,254
		10,132,335	9,004,986
Other income			
Bank interest income	7	**14,852**	9,989
Dividend income from listed investments	7	**3,212**	1,600
Dividend income from unlisted investments	7	**4,328**	5,471
Government grants	38	**14,074**	7,496
Others		**15,884**	14,346
		52,350	38,902
Other gains			
Compensation received from former shareholders of a subsidiary	7	**10,940**	—
Fair value gains on financial assets at fair value through profit or loss, net	7	**1,947**	4,708
Fair value gains on remeasurement of interests in associates	7	**11,832**	—
Gain on disposal of available-for-sale financial assets, net	7	**14,127**	6,606
Gain on disposal of financial assets at fair value through profit or loss, net	7	**2,153**	2,446
Gain on disposal of property, plant and equipment, net	7	**4,948**	—
Gain on disposal of subsidiaries	7, 44	**108,779**	29,648
Write-off of other payables	7	**6,931**	—
		161,657	43,408
		214,007	82,310

7. PROFIT BEFORE INCOME TAX

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

	Note	**2010** ***RMB'000***	2009 *RMB'000* (Restated)
Cost of inventories sold	23	**8,656,967**	7,714,843
Depreciation of property, plant and equipment	15	**153,656**	105,803
Depreciation of investment properties	16	**270**	—
Impairment of property, plant and equipment*	15	**2,075**	14,878
Amortisation of prepaid operating leases	17	**3,219**	1,561
Employee benefits expenses (excluding directors' and supervisors' remuneration - *Note 9*):			
Wages and salaries		**531,604**	504,680
Pension scheme contributions**		**86,733**	82,893
Provision for early retirement benefits	37	**25,854**	81,261
		644,191	668,834
Minimum lease payments under operating leases:			
Land and buildings		**27,355**	23,344
Plant and machinery		**641**	125
		27,996	23,469

7. PROFIT BEFORE INCOME TAX *(continued)*

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

	Note	**2010** **RMB'000**	2009 *RMB'000* (Restated)
Research and development costs		**265,165**	290,528
Auditors' remuneration		**5,495**	6,088
Provision for impairment of trade and bill receivables, net *	24	**7,235**	20,663
Provision for impairment of other receivables, net *	25	**4,523**	11,229
Provision for product warranties	37	**107,059**	33,306
Provision for impairment of loan receivables, net *	22	**1,663**	234
Interest expense on financial operations		**25,784**	3,161
Provision for/(reversal of) impairment of inventories, net		**8,815**	(585)
(Gain)/loss on disposal of property, plant and equipment, net *	6	**(4,948)**	161
Compensation received from former shareholders of a subsidiary	6	**(10,940)**	—
Fair value gain on financial assets at fair value through profit or loss, net	6	**(1,947)**	(4,708)
Fair value gain on remeasurement of interests in associates	6	**(11,832)**	—
Gain on disposal of financial assets at fair value through profit or loss, net	6	**(2,153)**	(2,446)
Gain on disposal of available-for-sale financial assets, net	6	**(14,127)**	(6,606)
Gain on disposal of subsidiaries	6, 44	**(108,779)**	(29,648)
Write-off of other payables	6	**(6,931)**	—
Foreign exchange differences, net *		**5,762**	244
Dividend income from listed investments	6	**(3,212)**	(1,600)
Dividend income from unlisted investments	6	**(4,328)**	(5,471)
Bank interest income	6	**(14,852)**	(9,989)
Interest income from financial operations	6	**(45,960)**	(33,254)
Gross rental income		**(5,438)**	(6,655)

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

** At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

8. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Interest on bank and other borrowings wholly repayable within 5 years	**27,205**	15,040
Less: Interest capitalised	**—**	—
	27,205	15,040

9. REMUNERATION OF DIRECTORS AND SUPERVISORS

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

	2010	2009
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,551**	1,108
Performance related bonuses	**—**	235
Pension scheme contributions	**—**	268
	1,551	1,611
	1,551	1,611

9. REMUNERATION 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*
2010					
Executive and non-executive directors:					
Mr. Liu Yongle	—	48	—	—	48
Mr. Qu Dawei	—	73	—	—	73
Mr. Li Xibin	—	308	—	—	308
Ms. Dong Jianhong	—	113	—	—	113
Mr. Liu Dagong *(b)*	—	137	—	—	137
Mr. Zhao Yanshui *(c)*	—	113	—	—	113
Mr. Yan Linjiao	—	113	—	—	113
Mr. Shao Haichen	—	113	—	—	113
	—	1,018	—	—	1,018
Independent non-executive directors:					
Mr. Hang Xianguo	—	70	—	—	70
Mr. Chan Sau Shan, Gary	—	62	—	—	62
Mr. Luo Xiwen	—	68	—	—	68
Mr. Zhang Qiusheng *(a)*	—	2	—	—	2
	—	202	—	—	202

9. REMUNERATION 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*
Supervisors:					
Ms. Yi Liwen	—	—	—	—	—
Mr. Wang Yong	—	**44**	—	—	**44**
Mr. Huang Ping	—	**50**	—	—	**50**
Mr. Shao Jianxin	—	**75**	—	—	**75**
Mr. Zhao Shengyao *(d)*	—	**75**	—	—	**75**
Mr. Zheng Luyu	—	**87**	—	—	**87**
Mr. Wang Jianjun *(e)*	—	—	—	—	—
	—	**331**	—	—	**331**
	—	**1,551**	—	—	**1,551**

(a) Appointed on 16 August 2010

(b) Resigned on 26 November 2010

(c) Changed to executive director from non-executive director on 26 November 2010

(d) Resigned on 8 December 2010

(e) Appointed on 8 December 2010

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

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

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2009					
Executive and non-executive directors:					
Mr. Liu Yongle *(f)*	—	40	—	8	48
Mr. Qu Dawei *(f)*	—	60	—	12	72
Mr. Li Xibin *(f)*	—	40	—	8	48
Ms. Dong Jianhong	—	76	18	19	113
Mr. Liu Dagong	—	96	18	23	137
Mr. Liu Wenying *(g)*	—	36	18	11	65
Mr. Zhao Yanshui	—	76	18	19	113
Mr. Yan Linjiao	—	76	18	19	113
Mr. Li Tengjiao *(g)*	—	36	18	11	65
Mr. Shao Haichen	—	76	18	19	113
Mr. Li Youji *(g)*	—	36	18	11	65
Mr. Liu Shuangcheng *(g)*	—	36	18	11	65
Mr. Zhao Fei *(g)*	—	36	18	11	65
	—	720	180	182	1,082
Independent non-executive directors:					
Mr. Hang Xianguo *(f)*	—	30	—	6	36
Mr. Chen Zhi *(h)*	—	10	—	2	12
Mr. Chan Sau Shan, Gary	—	30	—	6	36
Mr. Luo Xiwen	—	30	—	6	36
Mr. Lu Zhongmin *(g)*	—	—	—	—	—
	—	100	—	20	120

9. REMUNERATION 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*
Supervisors:					
Ms. Yi Liwen (f)	—	30	—	6	36
Mr. Wang Yong (f)	—	24	—	5	29
Mr. Huang Ping (f)	—	24	—	5	29
Mr. Xu Weilin (g)	—	22	11	6	39
Mr. Shao Jianxin	—	52	11	12	75
Mr. Zhao Shengyao	—	52	11	12	75
Mr. Kong Lingfu (g)	—	22	11	6	39
Mr. Zheng Luyu	—	62	11	14	87
	—	288	55	66	409
	—	1,108	235	268	1,611

(f) Appointed on 1 July 2009

(g) Left his post on 1 July 2009

(h) 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.

10. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include one (2009:Nil) director whose emoluments is reflected in the analysis presented in Note 9. The emoluments payable to the remaining four (2009: five) individuals during the year are as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Salaries, allowances and benefits in kind	**1,340**	1,592
Performance related bonuses	**—**	—
Pension scheme contributions	**268**	318
	1,608	1,910

One of the highest paid employees (2009: Nil) for the year is a director of the Company, details of whose remuneration are set out in Note 9 above.

The remuneration of the four (2009: five) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

11. INCOME TAX EXPENSE

	2010 ***RMB'000***	2009 *RMB'000* (Restated)
Current - PRC corporate income tax		
Charge for the year	**64,783**	95,414
(Over)/under-provision in prior years	**(1,929)**	6
Deferred income tax *(Note 39)*	**20,740**	(10,136)
Total income tax charge for the year	**83,594**	85,284

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25% (2009: 15% to 25%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices.

11. INCOME TAX EXPENSE *(continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2010 and 2009.

Profits tax of the subsidiaries operating outside the PRC is subject to the rates applicable within the jurisdiction in which it operates. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2009: Nil).

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

	2010		2009	
	RMB'000	**%**	*RMB'000* (Restated)	%
Profit before income tax	**645,465**		367,196	
Tax at the PRC statutory tax rate of 25% (2009: 25%)	**161,366**	**25**	91,800	25
Entities subject to lower income tax rates for specific provinces or enacted by local authorities	**(44,419)**	**(7)**	(37,177)	(10)
Adjustments in respect of current tax of previous periods	**(1,929)**	**—**	6	—
(Profits)/losses attributable to associates	**(187)**	**—**	1,734	1
Income not subject to tax	**(59,871)**	**(10)**	(21,326)	(6)
Expenses not tax deductible to tax	**51,830**	**8**	33,552	9
Tax losses utilised	**(1,081)**	**—**	(4,610)	(1)
Unrecognised tax losses	**4,880**	**1**	8,249	2
Adjustments in respect of current tax for investment loss recognised in prior years	**(28,111)**	**(4)**	11,972	3
Others	**1,116**	**—**	1,084	—
Income tax expense at the Group's effective rate	**83,594**	**13**	85,284	23

11. INCOME TAX EXPENSE *(continued)*

Income tax recognised in other comprehensive income is summarised as follows:

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Current tax	**—**	—
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Revaluations of available-for-sale financial assets *(Note 39)*	**962**	8,777
Total income tax debited to other comprehensive income	**962**	8,777

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2010 which has been dealt with in the financial statements of the Company is approximately RMB219,015,000 (2009: approximately RMB178,134,000) (Note 41(b)).

13. DIVIDENDS

The dividends paid in 2010 and 2009 were RMB203,016,000 (RMB0.24 per share) and RMB42,729,000 (RMB0.05 per share) respectively.

	2010	2009
	RMB'000	*RMB'000*
Interim dividend, paid, of RMB12 cents (2009: Nil) per ordinary share	**101,508**	—
Final dividend, proposed, of RMB8 cents (2009: RMB12 cents) per ordinary share *(Note 41(b))*	**67,672**	101,508
	169,180	101,508

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting standards; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed (i.e. Hong Kong Financial Reporting Standards).

14. EARNINGS PER SHARE ATTRIBUTABLE TO 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 RMB542,361,000 (2009: approximately RMB248,551,000) and the weighted average of 845,900,000 (2009: 845,900,000) ordinary shares in issue during the year.

No diluting events occurred during the years ended 31 December 2010 and 2009.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000* (Restated)	Plant, machinery and equipment *RMB'000* (Restated)	Transportation vehicles and equipment *RMB'000* (Restated)	Construction in progress *RMB'000* (Restated)	Total *RMB'000* (Restated)
At 1 January 2009, as restated					
Cost	954,766	1,757,749	46,927	92,130	2,851,572
Accumulated depreciation and impairment	(531,334)	(1,079,917)	(23,873)	(7,575)	(1,642,699)
Net book amount	423,432	677,832	23,054	84,555	1,208,873
Year ended 31 December 2009					
Opening net book amount					
— As previously reported	399,538	658,608	22,003	83,088	1,163,237
— Acquisition of LTRI	23,894	19,224	1,051	1,467	45,636
— As restated	423,432	677,832	23,054	84,555	1,208,873
Classified as assets included in a disposal group at the beginning of the year	33,257	12,521	7,156	2,283	55,217
Additions	48,603	10,950	5,098	118,556	183,207
Transfers	2,122	65,787	—	(67,909)	—
Disposals	(546)	(41,266)	(2,158)	—	(43,970)
Disposal of subsidiaries *(Note 44)*	(32,445)	(26,610)	(115)	(2,218)	(61,388)
Depreciation charged for the year *(Note 7)*	(26,865)	(74,844)	(4,094)	—	(105,803)
Impairment charge *(Note 7)*	(3,207)	(10,140)	(323)	(1,208)	(14,878)
Closing net book amount	444,351	614,230	28,618	134,059	1,221,258
At 31 December 2009, as restated					
Cost	1,088,344	1,731,593	56,263	142,842	3,019,042
Accumulated depreciation and impairment	(643,993)	(1,117,363)	(27,645)	(8,783)	(1,797,784)
Net book amount	444,351	614,230	28,618	134,059	1,221,258

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*
Year ended 31 December 2010					
Opening net book amount					
— As previously reported	421,848	593,048	27,450	134,059	1,176,405
— Acquisition of LTRI	22,503	21,182	1,168	—	44,853
— As restated	444,351	614,230	28,618	134,059	1,221,258
Additions	96,843	135,633	4,572	631,627	868,675
Transfers	80,810	32,247	1,267	(114,324)	—
Disposals	(33,071)	(7,959)	(2,307)	—	(43,337)
Acquisitions of subsidiaries *(Note 43)*	—	539	378	—	917
Disposal of subsidiaries *(Note 44)*	(38,688)	(36,304)	(2,310)	(165)	(77,467)
Depreciation charged for the year *(Note 7)*	(39,271)	(111,036)	(3,349)	—	(153,656)
Impairment charge *(Note 7)*	—	(2,075)	—	—	(2,075)
Closing net book amount	510,974	625,275	26,869	651,197	1,814,315
At 31 December 2010					
Cost	1,012,407	1,733,367	39,494	659,576	3,444,844
Accumulated depreciation and impairment	(501,433)	(1,108,092)	(12,625)	(8,379)	(1,630,529)
Net book amount	510,974	625,275	26,869	651,197	1,814,315

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

Company

	Buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Transportation vehicles and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2009					
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
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

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*
Year ended 31 December 2010					
Opening net book amount	**207,709**	**431,699**	**6,858**	**128,625**	**774,891**
Additions	**6,049**	**15,045**	**1,519**	**431,033**	**453,646**
Transfers	**80,267**	**25,192**	**—**	**(105,459)**	**—**
Disposals	**(11,981)**	**(5,633)**	**(1,223)**	**—**	**(18,837)**
Depreciation charged for the year	**(23,086)**	**(62,425)**	**(1,116)**	**—**	**(86,627)**
Impairment charge	**—**	**(1,754)**	**—**	**—**	**(1,754)**
Closing net book amount	**258,958**	**402,124**	**6,038**	**454,199**	**1,121,319**
At 31 December 2010					
Cost	**647,791**	**1,117,631**	**12,485**	**462,578**	**2,240,485**
Accumulated depreciation and impairment	**(388,833)**	**(715,507)**	**(6,447)**	**(8,379)**	**(1,119,166)**
Net book amount	**258,958**	**402,124**	**6,038**	**454,199**	**1,121,319**

Certain of the Group's buildings are leased to the Holding and third parties under operating leases, the lease rental amounting to approximately RMB5,438,000 (2009: approximately RMB6,655,000) are included in the income statement. The summary details of operating lease arrangements are included in Note 49(a) to the consolidated financial statements.

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

At 31 December 2010, the Group has not pledged its buildings and machinery.

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

At 31 December 2009, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB41,799,000, together with the land use rights of the Holding, were pledged to secure certain borrowings granted to the Group (Note 36(i)).

The Company has not pledged its buildings and machinery for the two years ended 31 December 2010 and 2009.

16. INVESTMENT PROPERTIES

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Net book amount at 1 January		
— As previously reported	**—**	—
— Acquisition of LTRI	**—**	—
— As restated	**—**	—
Acquisitions of subsidiaries *(Note 43)*	**35,572**	—
Depreciation charged for the year *(Note 7)*	**(270)**	—
Net book amount at 31 December	**35,302**	—

The cost of investment properties is depreciated over their estimated useful lives at an estimated rate of 3.92% to 7.66% per annum.

As at 31 December 2010, the Group has not pledged its investment properties.

The fair value of the Group's investment properties as at 31 December 2010 was approximately RMB35,302,000. The fair value has been arrived on the basis of a valuation carried out at that date by independent local valuers, who are not connected with the Group.

The property rental income earned by the Group during the year from its investment properties, all of which are leased out under operating leases, amounted to approximately RMB382,000. Direct operating expenses arising on the investment properties amounted to approximately RMB270,000.

17. PREPAID OPERATING LEASES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Net book amount at 1 January				
— As previously reported	**76,689**	79,158	**67,774**	70,150
— Acquisition of LTRI	**—**	—	**—**	—
— As restated	**76,689**	79,158	**67,774**	70,150
Classified as assets included in a disposal group at the beginning of the year	**—**	8,404	**—**	—
Additions	**88,432**	655	**—**	—
Disposals	**—**	(1,626)	**—**	(1,232)
Acquisitions of subsidiaries *(Note 43)*	**30,499**	—	**—**	—
Disposal of subsidiaries *(Note 44)*	**(2,339)**	(8,341)	**—**	—
Amortisation charged for the year *(Note 7)*	**(3,219)**	(1,561)	**(1,374)**	(1,144)
Net book amount at 31 December	**190,062**	76,689	**66,400**	67,774

The prepaid operating leases comprise leasehold land in the PRC under medium term leases.

At 31 December 2010, certain of the Group's land use rights with an aggregate net carrying value of approximately RMB6,299,000 (2009: approximately RMB6,436,000), were pledged to secure borrowings granted to the Group (Note 36(ii)).

18. GOODWILL

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Net book amount at 1 January		
— As previously reported	**—**	52,990
— Effect of adopting AG5 *(Note 2.1(a))*	**—**	(52,990)
— As restated	**—**	—
Impairment during the year	**—**	—
Net book amount at 31 December	**—**	—
At 31 December		
Cost	**—**	—
Accumulated impairment	**—**	—
Net book amount	**—**	—

19. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted investments, at cost	**1,181,996**	878,539
Provision for impairment #	**(44,750)**	(31,001)
	1,137,246	847,538

An impairment was recognised for certain unlisted investments with a carrying amount of approximately RMB44,750,000 (before deducting the impairment loss) (2009: approximately RMB31,001,000) because these unlisted investments have recorded operating losses.

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

	Company	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**31,001**	98,793
Provision for/(reversal of) impairment	**42,000**	(67,792)
Amount written off on disposal	**(28,251)**	—
At 31 December	**44,750**	31,001

The loans to subsidiaries of approximately RMB99,000,000 (2009: approximately RMB197,489,000) 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 4.86% to 5.31% (2009: 4.05% to 6.00%) per annum, and are repayable within one year.

The amounts due from subsidiaries of approximately RMB36,340,000 (2009: approximately RMB112,744,000) are unsecured and interest-free, and are repayable on demand or within one year.

19. INTERESTS IN SUBSIDIARIES *(continued)*

Deposits placed with a subsidiary are deposits of approximately RMB401,748,000 (2009: approximately RMB99,396,000) placed by the Company in the subsidiary which is a financial institution. Except for a one-year time deposit of approximately RMB10,000,000 placed therein which bears interest at a rate of 2.25% per annum, all deposits placed therein bear interest at a rate of 0.36% (2009: 0.36%) per annum and are repayable on demand.

The balances with subsidiaries are included in Note 24, 31 and 32 to the consolidated financial statements.

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

As at 31 December 2010 and 2009, 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		
			2010	2009	**2010**	2009	
Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司	Bermuda	US$12,000	**90.1**	90.1	**–**	–	Investment holding
YTO (Luoang) Construction Machinery Co., Ltd. ("YCMC") + — *(Note(iii) & (iv))* 一拖(洛陽)工程機械有限公司	The PRC	US$17,900,000	**–**	–	**–**	95	Manufacture and sale of construction machinery
YTO (Luoyang) Building Machinery Co., Ltd. ("YBMC") + — *(Note(iii) & (iv))* 一拖(洛陽)建築機械有限公司	The PRC	US$9,980,000	**–**	–	**–**	95	Manufacture and sale of road rollers and road construction machinery
Luoyang Changlun Agricultural Machinery Company Limited ("Changlun") * # 洛陽長侖農業機械有限公司	The PRC	RMB500,000	**99**	99	**–**	–	Trading of tractors

19. INTERESTS IN SUBSIDIARIES *(continued)*

As at 31 December 2010 and 2009, 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		
			2010	2009	**2010**	2009	
YTO (Luoyang) Harvester Machinery Co., Ltd. * # 一拖(洛陽)收穫機械有限公司	The PRC	RMB49,295,000	**—**	—	**93.9**	93.9	Manufacture and sale of agricultural harvesting machinery
Luoyang Changhong Trading Co., Ltd ("Changhong") * # — *(Note(v))* 洛陽長宏工貿有限公司	The PRC	RMB3,000,000	**100**	91.7	**—**	8.3	Trading of tractors
YTO Group Finance Co., Ltd ("YTO Finance")* # — *(Note(vi))* 中國一拖集團財務有限責任公司	The PRC	RMB500,000,000	**87.8**	87.8	**3.1**	9.1	Provision of financial services
YTO (Luoyang) Jiangong Machinery Co., Ltd ("YTO Jiangong")* # — *(Note (i), (iii) &(iv))* 一拖(洛陽)建工機械有限公司	The PRC	RMB18,303,000	**—**	35	**—**	—	Manufacture and sale of road rollers
YTO (Luoyang) Shentong Construction Machinery Co., Ltd ("YLST")* # — (Note (ii)) 一拖(洛陽)神通工程機械有限公司	The PRC	RMB13,000,000	**50**	50	**—**	—	Manufacture and sale of construction machinery

19. INTERESTS IN SUBSIDIARIES *(continued)*

As at 31 December 2010 and 2009, 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		
			2010	2009	**2010**	2009	
YTO (Luoyang) Construction Machinery Sales Co., Ltd # — *(Note (iv))* 一拖(洛陽)工程機械銷售有限公司	The PRC	RMB8,000,000	**—**	100	**—**	—	Trading of road rollers and construction machinery
Luoyang Changxing Agriculture Machinery Co., Ltd * # 洛陽長興農業機械有限公司	The PRC	RMB3,000,000	**70**	70	**30**	30	Trading of tractors
YTO (Luoyang) Farming Implements Co., Ltd. # 一拖(洛陽)機具有限公司	The PRC	RMB10,000,000	**73**	73	**—**	—	Manufacture and sale of agricultural machinery and tools
YTO (Luoyang) Diesel Engine Co., Ltd ("YLDC")* + 一拖(洛陽)柴油機有限公司	The PRC	RMB51,718,205	**58.8**	58.8	**22.5**	22.5	Manufacture and sale of diesel engines
YTO (Luoyang) Fuel Injection Pump Co., Ltd # 一拖(洛陽)燃油噴射有限公司	The PRC	RMB77,000,000	**52**	52	**36.3**	36.3	Manufacture and sale of fuel injection pumps and fuel jets
YTO (Luoyang) Power Machinery Co., Ltd # 一拖(洛陽)動力機械有限公司	The PRC	RMB38,000,000	**42**	42	**40.7**	40.7	Manufacture and sale of diesel engines

19. INTERESTS IN SUBSIDIARIES *(continued)*

As at 31 December 2010 and 2009, 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		
			2010	2009	**2010**	2009	
YTO (Luoyang) Transporting Machinery Co., Ltd ("YLTM")* # — *(Note (vii))* 一拖(洛陽)搬運機械有限公司	The PRC	RMB55,880,000	**93.6**	91.2	**—**	—	Manufacture and sale of fork lifts
YTO (Luoyang) Forklift Trading Co., Ltd. ("YLFT")* # — *(Note (viii))* 一拖(洛陽)叉車銷售有限公司	The PRC	RMB800,000	**—**	—	**93.6**	91.2	Sale of fork lifts
YTO (Xinjiang) Machinery Co., Ltd* ("YTO Xinjiang") # — *(Note (ix))* 一拖(新疆)東方紅裝備機械有限公司	The PRC	RMB100,000,000	**100**	100	**—**	—	Manufacture and sale of tractors, parts and components
China-Africa Machinery Corp. + 中非重工投資有限公司	The PRC	RMB100,040,000	**55**	55	**—**	—	Investment management, agency for importing and exporting goods and technology

19. INTERESTS IN SUBSIDIARIES *(continued)*

As at 31 December 2010 and 2009, 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		
			2010	2009	**2010**	2009	
YTO Heilongjiang Modern Agricultural Machinery Co., Ltd* # 一拖黑龍江現代農業裝備有限公司	The PRC	RMB20,000,000	**51**	51	**—**	—	Manufacture and sale of tractors, parts and components
Cadfund Machinery (Pty) Ltd ("Cadfund Machinery") — *(Note (x))*	South Africa	ZAR 0.1	**55**	—	**—**	—	Sale of agricultural and construction machinery
Luoyang Tractors Research Institute Co., Ltd ("LTRI") # — *(Note (xi))* 洛陽拖拉機研究所有限公司	The PRC	RMB185,000,000	**51**	—	**—**	—	Technology development and consultancy services for agricultural and construction machinery
Shanghai Dragon (Group) Co., Ltd ("Shanghai Dragon") — *(Note (xii))*# 上海強農(集團)股份有限公司	The PRC	RMB81,000,000	**93.8**	35.9	**—**	—	Trading of agricultural machineries, and properties investment

19. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

(i) In accordance with YTO Jiangong'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 interest of YTO Jiangong, respectively, each of these two shareholders has conferred 8% voting rights in the shareholders' meeting of YTO Jiangong to the Company. Therefore, the Company can exercise control over the financial and operating policies of YTO Jiangong.

(ii) The percentages of equity interest 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.

(iii) During 2010, the Company acquired further interest in YCMC, YBMC and YTO Jiangong from their non-controlling shareholders. Upon the completion of the further acquisition, the Company held an 100% equity interest in the above entities.

(iv) On 9 October 2010, the Company disposed of an 100% equity interest in all of these entities to the Holding. Please refer to Note 44 for details.

(v) During 2010, Changlun transferred its 8.3% equity interest in Changhong to the Company. Upon the completion of the transfer, the Company held an 100% equity interest in Changhong.

(vi) As YBMC held an 6% equity interest in YTO Finance, after its disposal to the Holding, the equity interest indirectly attributable to the Company decreased by 6%.

(vii) During 2010, the Company acquired a further 2.4% equity interest in YLTM from its non-controlling shareholders. Upon the completion of further acquisition, the equity interest of YLTM attributable to the Company increased to 93.6%. Please refer to Note 42 for details.

(viii) YLFT is a wholly-owned subsidiary of YLTM. Upon the further acquisition of 2.4% equity interest in YLTM by the Company, the percentage of equity attributable indirectly to the Company also increased from 91.2% to 93.6%.

(ix) During 2010, the Company injected RMB75,000,000 into YTO Xinjiang as its registered share capital.

(x) During 2010, Cadfund Machinery was incorporated in South Africa.

(xi) On 1 December 2010, the Company acquired an 51% equity interest in LTRI from the Holding Company. Please refer to Note 45 for details.

19. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(xii) During 2010, the Company acquired a further equity interest in Shanghai Dragon through Shanghai United Assets and Equity Exchange. After the acquisition, the Company held an 93.8% equity interest in Shanghai Dragon. Please refer to Note 43 for details.

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

\# Limited liability companies established in the PRC.

\+ Sino-foreign joint ventures established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Unlisted shares, at cost	**—**	—	**71,000**	113,000
Share of net assets	**15,121**	14,281	**—**	—
	15,121	14,281	**71,000**	113,000
Provision for impairment	**—**	—	**(59,000)**	(101,304)
	15,121	14,281	**12,000**	11,696

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

The Group's balances with associates are disclosed in Note 24 to the consolidated financial statements.

20. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2010 and 2009, particulars of the principal associates are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place of registration	Percentage of equity attributable to the Group				Principal activities
			Direct		Indirect		
			2010	2009	**2010**	2009	
Luoyang First Motors Company Limited * 洛陽福賽特汽車股份有限公司	Ordinary shares of RMB1 each	The PRC	**29.5**	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	The PRC	**40**	40	**—**	—	Manufacture, sale and service of forged steel crankshafts
Luoyang I&C Technology Consulting Company Limited ("I&C Technology") — *(Note (i))* 洛陽意中技術咨詢有限公司	Ordinary shares of RMB1 each	The PRC	**—**	—	**15.3**	15.3	Technology development, and consultancy services
Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") — *(Note(i))* 洛陽拖汽工程車輛科技有限公司	Ordinary shares of RMB1 each	The PRC	**—**	—	**15.3**	15.3	Provision of technology transfer and consultancy services

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

Note:

(i) Since I&C Technology and Touqi Engineering are associates of LTRI, they are regarded as associates of the Group.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2010

20. INTERESTS IN ASSOCIATES *(continued)*

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

	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Assets	**64,597**	59,737
Liabilities	**19,912**	11,845
Revenue	**71,968**	65,468
Profits/(losses)	**6,314**	(11,444)

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Listed equity investments in the PRC, at fair value	**186,481**	108,679	**78,861**	102,525
Unlisted equity investments, at cost	**105,107**	61,920	**26,463**	26,463
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	102,984	59,797	**24,340**	24,340
	289,465	168,476	**103,201**	126,865

During the year, the gross loss of the Group's available-for-sale financial assets recognised directly in equity amounted to approximately RMB5,618,000 (2009: gross gain of approximately RMB55,052,000).

The fair values of listed equity investments are based on quoted market prices.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

As at 31 December 2010 and 2009, all 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.

22. LOAN RECEIVABLES

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Analysis by nature:		
Loan borrowings, net	**324,943**	390,902
Discounted bills, net	**122,384**	147,415
Finance lease obligations, net	**100,762**	39,084
	548,089	577,401

	Note	Gross amount	Provisions	Net
		RMB'000	*RMB'000*	*RMB'000*
Analysis by customer:				
2010				
Loans to the Holding	(i)	**139,000**	**2,029**	**136,971**
Loans to related companies	(ii)	**285,989**	**4,612**	**281,377**
Loans to customers	(iii)	**137,915**	**8,174**	**129,741**
		562,904	**14,815**	**548,089**
Portion classified as current assets		**(516,277)**	**(13,046)**	**(503,231)**
Non-current portion		**46,627**	**1,769**	**44,858**

22. LOAN RECEIVABLES *(continued)*

	Note	Gross amount RMB'000 (Restated)	Provisions RMB'000 (Restated)	Net RMB'000 (Restated)
Analysis by customer:				
2009				
Loans to the Holding	(i)	320,643	5,439	315,204
Loans to related companies	(ii)	219,468	4,834	214,634
Loans to customers	(iii)	50,442	2,879	47,563
		590,553	13,152	577,401
Portion classified as current assets		(451,488)	(9,365)	(442,123)
Non-current portion		139,065	3,787	135,278

Notes:

(i) The loans to the Holding are granted by YTO Finance, and are unsecured, bear interest at a rate of 4.67% (2009: 3.98% to 4.50%) per annum and are repayable within one year (2009: 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 3.83% to 6.07% (2009: 4.43% to 7.25%) per annum and are repayable within one to three years (2009: one year).

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

22. LOAN RECEIVABLES *(continued)*

The movements in impairment during the year are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
At 1 January		
— As previously reported	**13,152**	14,396
— Acquisition of LTRI	**—**	—
— As restated	**13,152**	14,396
Provision for impairment charged to the income statement, net *(Note 7)*	**1,663**	234
Amounts written off as uncollectible	**—**	(1,478)
At 31 December	**14,815**	13,152

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Repayable:		
Within three months	**200,690**	23,997
Within one year but over three months	**315,587**	427,491
Within five years but over one year	**46,167**	138,472
Over five years	**460**	593
At 31 December	**562,904**	590,553

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

23. INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Raw materials	**222,291**	190,955	**120,147**	59,045
Work in progress	**350,456**	315,632	**230,709**	177,302
Finished goods	**743,332**	501,463	**505,587**	217,576
Spare parts and consumables	**13,448**	15,821	**13,437**	17,240
	1,329,527	1,023,871	**869,880**	471,163

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately RMB8,656,967,000 (2009: approximately RMB7,714,843,000) (Note 7).

24. TRADE AND BILL RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Bill receivables	**969,218**	395,472	**383,521**	216,719
Trade receivables	**651,106**	665,982	**434,043**	472,828
	1,620,324	1,061,454	**817,564**	689,547
Impairment	**(82,546)**	(166,672)	**(23,512)**	(31,748)
	1,537,778	894,782	**794,052**	657,799

24. TRADE AND BILL RECEIVABLES *(continued)*

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted to its customers are from 30 to 90 days; otherwise, cash terms are normally required. The Group seeks to maintain strict control over its outstanding receivables. Trade receivables are non-interest-bearing.

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

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within 90 days	**983,378**	485,981	**458,486**	363,743
91 days to 180 days	**520,651**	356,599	**201,753**	245,027
181 days to 365 days	**25,783**	37,078	**44,636**	36,771
1 to 2 years	**7,966**	14,969	**89,177**	12,258
Over 2 years	**—**	155	**—**	—
	1,537,778	894,782	**794,052**	657,799

24. TRADE AND BILL RECEIVABLES *(continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**166,403**	160,727	**31,748**	14,846
— Acquisition of LTRI	**269**	164	**—**	—
— As restated	**166,672**	160,891	**31,748**	14,846
Classified as assets included in a disposal group at the beginning of the year	**—**	34,167	**—**	—
Impairment during the year *(Note 7)*	**7,235**	20,663	**3,532**	17,651
Amounts written off as uncollectible	**(12,809)**	(13,942)	**(11,768)**	(749)
Acquisition of subsidiaries	**2**	—	**—**	—
Disposal of subsidiaries	**(78,554)**	(35,107)	**—**	—
At 31 December	**82,546**	166,672	**23,512**	31,748

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.

24. TRADE AND BILL RECEIVABLES *(continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Neither past due nor impaired	**1,504,029**	842,580	**660,239**	608,770
Less than six months past due	**25,783**	37,078	**44,636**	36,771
Over six months past due	**7,966**	15,124	**89,177**	12,258
	1,537,778	894,782	**794,052**	657,799

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good 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 2010, certain of the Group's and the Company's bill receivables of approximately RMB156,020,000 (2009: approximately RMB18,000,000) and approximately RMB70,000,000 (2009: approximately RMB15,000,000), respectively, were pledged for the issuance of bill payables.

24. TRADE AND BILL RECEIVABLES *(continued)*

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from the Holding of approximately RMB684,000 (2009: approximately RMB8,210,000) and approximately RMB179,000 (2009: approximately RMB6,788,000), respectively. These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from associates aggregating approximately RMB2,259,000 (2009: approximately RMB1,520,000) and approximately RMB2,259,000 (2009: approximately RMB1,369,000), respectively. These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from related companies (fellow subsidiaries and associates of the Holding) of approximately RMB99,848,000 (2009: approximately RMB28,943,000) and approximately RMB90,962,000 (2009: approximately RMB21,055,000), respectively. These balances are interest-free and are repayable on demand.

Included in the trade and bill receivables of the Company are unsecured trade receivables due from subsidiaries of approximately RMB299,930,000 (2009: approximately RMB271,943,000). These balances are interest-free and are repayable on demand.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Prepayments, deposits and other debtors	**449,531**	463,178	**292,879**	357,129
Due from the Holding *(Note 26)*	**1,911**	121,266	**1,906**	12,261
	451,442	584,444	**294,785**	369,390

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**11,623**	15,939	**8,189**	11,037
— Acquisition of LTRI	**200**	3,533	**—**	—
— As restated	**11,823**	19,472	**8,189**	11,037
Classified as assets included in a disposal group at the beginning of the year	**—**	1,208	**—**	—
Impairment during the year *(Note 7)*	**4,523**	11,229	**3,820**	5,882
Amounts written off as uncollectible	**(3,359)**	(19,243)	**(3,617)**	(8,730)
Disposal of subsidiaries	**(2,798)**	(843)	**—**	—
At 31 December	**10,189**	11,823	**8,392**	8,189

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 RMB29,394,000 (2009: approximately RMB7,776,000) and approximately RMB29,342,000 (2009: approximately RMB7,535,000), respectively. They are interest-free and are repayable in accordance to terms agreed.

Other balances are unsecured and interest-free, and repayable in accordance to terms agreed.

26. DUE FROM THE HOLDING

There is no balance due from the Holding (2009: approximately RMB95,761,000), which is secured by certain of the Holding's machinery. The balance as at 31 December 2009 is interest-free and repayable in 2010.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Financial assets held for trading purposes:		
— Debt securities		
— Listed in the PRC		
— Government	**10,000**	—
— Banks and other financial institutions	**4,857**	—
— Others	**1,728**	—
	16,585	—
— Unlisted, in the PRC		
— Government	**49,636**	—
— The Holding	**50,031**	—
	99,667	—
— Equity securities		
— Listed in Hong Kong	**9,331**	8,777
— Listed in the PRC	**53**	20,165
	9,384	28,942
Financial assets designated at fair value through profit or loss		
— Funds		
— Listed in the PRC	**24,903**	—
— Unlisted, in the PRC	**101,455**	—
	126,358	—
	251,994	28,942

The above financial assets at 31 December 2010 and 2009 were without any restriction on sale of financial assets.

The debt securities bear interest at rates ranging from 0.50% to 3.77% per annum, with maturity periods between within 1 and 10 years.

28. HELD-TO-MATURITY FINANCIAL ASSETS

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
At amortised cost:		
— Unlisted bonds in the PRC	**—**	10,140
— Unlisted investments in trusts, in the PRC	**1,000**	1,000
	1,000	11,140

Unlisted bonds at 31 December 2009 carried interest at 2.29% per annum and matured on 22 May 2010. Unlisted investments in trusts of the Group mature in February 2011. Held-to-maturity financial assets are presented in the consolidated statement of financial position at amortised cost discounted by effective interest method and net of any impairment.

29. PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Analysed by counterparties:		
— Banks	**250,000**	—
— Non-bank financial institutions	**100,000**	—
	350,000	—

As at 31 December 2010, all placement counterparties of the Group are banks and non-bank financial institutions located in the PRC.

30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
			(Restated)		
Cash and bank balances— *(Note (i))*		**850,033**	862,801	**192,072**	257,107
Mandatory reserve deposits with the PBOC — *(Note (ii))*		**153,307**	56,259	**—**	—
Time deposits — *(Note (iv))*		**334,550**	304,197	**127,000**	198,920
		1,337,890	1,223,257	**319,072**	456,027
Less: Pledged bank deposits for bill payables	31	**(133,728)**	(294,197)	**(85,000)**	(188,920)
Less: Pledged bank deposits for other banking facilities		**(42,000)**	—	**(42,000)**	—
Cash and cash equivalents in statement of financial position		**1,162,162**	929,060	**192,072**	267,107
Less: Mandatory reserve deposits with the PBOC — *(Note (ii))*		**(153,307)**	(56,259)		
Add: Pledged bank deposits for the issuance of bill payables — *(Note (iii))*		**133,728**	294,197		
Add: Pledged bank deposits for other banking facilities — *(Note (iii))*		**42,000**	—		
Cash and cash equivalents in the consolidated cash flow statement		**1,184,583**	1,166,998		

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

Notes:

(i) The balance included YTO Finance's deposits placed with the PBOC and other banks of approximately RMB276,229,000 (2009: approximately RMB70,357,000) and approximately RMB455,419,000 (2009: approximately RMB176,009,000), respectively.

(ii) The balance represents mandatory reserve deposits placed with the PBOC. In accordance with the regulations of the PBOC, the balance should be no less than a specific percentage of the amounts of customer deposits placed with YTO Finance. The mandatory reserve deposits are not available for use in the Group's day-to-day operations.

(iii) As the bank balances were pledged for the Group's trade facilities for issuing bill payable and other banking facilities, they are included in cash and cash equivalents in the consolidated statement of cash flows.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Maturity within three months when acquired	**334,550**	304,197
Maturity within one year but over three months when acquired	**—**	—
	334,550	304,197

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 RMB8,536,000 (2009: approximately RMB30,319,000) and approximately RMB1,089,000 (2009: approximately RMB81,428,000), 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 authorised banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balance and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

31. TRADE AND BILL PAYABLES

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within 90 days	**1,726,760**	1,237,204	**1,217,446**	835,517
91 days to 180 days	**153,894**	225,688	**45,236**	65,974
181 days to 365 days	**33,359**	85,448	**24,676**	22,301
1 to 2 years	**38,472**	59,688	**24,705**	34,329
Over 2 years	**43,845**	72,852	**26,998**	34,987
	1,996,330	1,680,880	**1,339,061**	993,108

The Group's bill payables amounting to approximately RMB458,355,000 (2009: approximately RMB330,103,000) are secured by the pledge of certain of the Group's bank deposits amounting to approximately RMB133,728,000 (2009: approximately RMB294,197,000) (Note 30).

Included in the trade and bill payables of the Group are unsecured trade payables due to the Holding of approximately RMB49,998,000 (2009: approximately RMB6,645,000). Included in the trade and bill payables of the Company, there was RMB Nil (2009: approximately RMB3,865,000) unsecured trade payables due to the Holding. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the related companies (fellow subsidiaries and associates of the Holding) of approximately RMB7,720,000 (2009: approximately RMB12,680,000) and approximately RMB6,074,000 (2009: approximately RMB4,155,000), respectively. The balances are interest-free and repayable on demand.

Included in the trade and bill payables of the Company are unsecured trade payables due to subsidiaries of approximately RMB13,416,000 (2009: approximately RMB13,125,000).

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

32. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
			(Restated)		
Accruals and other liabilities		**568,075**	391,113	**225,720**	99,922
Due to the Holding		**81,998**	30,849	**2,639**	7,571
Current portion of deferred income	38	**3,786**	3,786	**2,768**	2,768
		653,859	425,748	**231,127**	110,261

Included in other liabilities of the Group are amounts due to non-controlling interests of subsidiaries of the Group of approximately RMB4,194,000 (2009: approximately RMB337,000). These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Company are amounts due to subsidiaries of approximately RMB189,270,000 (2009: approximately RMB60,072,000). These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding) of approximately RMB5,384,000 (2009: approximately RMB31,454,000) and approximately RMB1,091,000 (2009: approximately RMB22,503,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

33. CUSTOMER DEPOSITS

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Deposits from the Holding	**268,745**	92,627
Deposits from associates	**99**	151
Deposits from fellow subsidiaries and associates of the Holding	**239,308**	170,280
Deposits from customers	**43,055**	17,678
	551,207	280,736

All of these balances are unsecured and bear interest at rates ranging from 0.36% to 2.75% (2009: 0.36% to 1.71%) per annum. The carrying amount of customer deposits approximate to their fair values and are denominated in Renminbi.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Repayable:		
On demand	**525,289**	244,936
Within three months	**8,888**	35,500
Within one year but over three months	**17,030**	300
	551,207	280,736

34. REPURCHASE AGREEMENTS

As at 31 December 2010, certain debt securities classified as financial assets at fair value through profit or loss in Note 27, are held as collaterals for obtaining these repurchase agreements. The carrying amount of these debt securities was approximately RMB99,668,000.

The loan from these repurchase agreements will be fully repayable in January 2011, and the loan bears interest rate at 5.50% per annum.

35. PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

As at 31 December 2010, all placement counterparties of the Group are banks and non-bank financial institutions located in the PRC.

36. BORROWINGS

	Effective interest rate (%)	Maturity	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)	Company 2010 RMB'000	Company 2009 RMB'000
Current - bank borrowings						
— Secured	6.37%	2011	**2,000**	—	**—**	—
— Unsecured	1.50% - 5.84%	2011	**403,258**	143,000	**94,883**	100,000
			405,258	143,000	**94,883**	100,000
Non-current - other borrowings						
— Unsecured	5.13%	2012	**600,000**	—	**600,000**	—
			1,005,258	143,000	**694,883**	100,000
Analysed into:						
Borrowings repayable:						
Within one year or on demand			**405,258**	143,000	**94,883**	100,000
In the second year			**600,000**	—	**600,000**	—
			1,005,258	143,000	**694,883**	100,000

36. BORROWINGS *(continued)*

The borrowings of the Group and the Company as at 31 December 2010 and 31 December 2009 are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
RMB	**950,375**	143,000	**640,000**	100,000
US dollar	**54,883**	—	**54,883**	—
	1,005,258	143,000	**694,883**	100,000

Other interest rate information:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Fixed interest rate	**965,258**	143,000	**654,883**	100,000
Floating interest rate	**40,000**	—	**40,000**	—
	1,005,258	143,000	**694,883**	100,000

The borrowings of the Group and the Company are secured by:

(i) the Group has not pledged its buildings and machinery in current year, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB41,799,000 were pledged in 2009. The Company has not pledged its buildings and machinery for the years of 2009 and 2010 (Note 15);

(ii) a subsidiary's land use rights with an aggregate net carrying value of approximately RMB6,299,000 (2009: approximately RMB6,436,000) (Note 17);

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

37. PROVISIONS

Group

	Early retirement benefits *RMB'000* (Restated)	Product warranties *RMB'000* (Restated)	Total *RMB'000* (Restated)
2009			
At 1 January 2009			
— As previously reported	54,885	8,780	63,665
— Acquisition of LTRI	—	—	—
— As restated	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	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 44)*	(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

37. PROVISIONS *(continued)*

Group *(continued)*

	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
2010			
At 1 January 2010			
— As previously reported	**112,572**	**11,997**	**124,569**
— Acquisition of LTRI	**—**	**—**	**—**
— As restated	**112,572**	**11,997**	**124,569**
Provision for the year *(Note 7)*	**25,854**	**107,059**	**132,913**
Amounts utilised during the year	**(26,862)**	**(71,165)**	**(98,027)**
Disposal of subsidiaries *(Note 44)*	**(12,960)**	**(1,000)**	**(13,960)**
At 31 December 2010	**98,604**	**46,891**	**145,495**
Portion classified as current liabilities	**(22,514)**	**(46,891)**	**(69,405)**
Non-current portion	**76,090**	**—**	**76,090**

37. PROVISIONS *(continued)*

Company

	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
2009			
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
2010			
At 1 January 2010	**81,840**	**2,000**	**83,840**
Provision for the year	**23,456**	**16,967**	**40,423**
Amounts utilised during the year	**(20,336)**	**(8,847)**	**(29,183)**
At 31 December 2010	**84,960**	**10,120**	**95,080**
Portion classified as current liabilities	**(19,120)**	**(10,120)**	**(29,240)**
Non-current portion	**65,840**	**—**	**65,840**

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 46 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.

38. 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	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**107,486**	107,560	**100,361**	99,416
— Acquisition of LTRI	**11,897**	9,864	**—**	—
— As restated	**119,383**	117,424	**100,361**	99,416
Classified as liabilities directly associated with the assets classified as held for sale at the beginning of the year	**—**	2,244	**—**	—
Received during the year	**13,215**	9,455	**5,317**	5,798
Recognised as other income and gains during the year *(Note 6)*	**(14,074)**	(7,496)	**(3,886)**	(4,853)
Recognised as other comprehensive income *(Note 41(b))*	**(7,990)**	—	**(7,990)**	—
Disposal of subsidiaries *(Note 44)*	**—**	(2,244)	**—**	—
At 31 December	**110,534**	119,383	**93,802**	100,361
Current portion included in other payables and accruals *(Note 32)*	**(3,786)**	(3,786)	**(2,768)**	(2,768)
Non-current portion	**106,748**	115,597	**91,034**	97,593

39. DEFERRED INCOME TAX

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

Deferred income tax liabilities

	Group					Company
	Fair value adjustment on investment properties	Fair value adjustment on property, plant and equipment	Fair value adjustment on prepaid leases	Revaluation of available-for-sale financial assets	Total	Revaluation of available-for-sale financial assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009						
— As previously reported	—	—	—	4,332	4,332	4,332
— Acquisition of LTRI	—	—	—	—	—	—
— As restated	—	—	—	4,332	4,332	4,332
Deferred tax debited to other comprehensive income during the year *(Note 11)*	—	—	—	8,777	8,777	8,155
Gross deferred tax liabilities at 31 December 2009	—	—	—	13,109	13,109	12,487
At 1 January 2010						
— As previously reported	**—**	**—**	**—**	**13,109**	**13,109**	**12,487**
— Acquisition of LTRI	**—**	**—**	**—**	**—**	**—**	**—**
— As restated	**—**	**—**	**—**	**13,109**	**13,109**	**12,487**
Acquisition of subsidiaries *(Note 43)*	**5,020**	**23**	**6,383**	**1,389**	**12,815**	**—**
Deferred tax (credited)/debited to income statement during the year *(Note 11)*	**(68)**	**(4)**	**(84)**	**332**	**176**	**—**
Deferred tax debited to other comprehensive income during the year *(Note 11)*	**—**	**—**	**—**	**962**	**962**	**(3,550)**
Gross deferred tax liabilities at 31 December 2010	**4,952**	**19**	**6,299**	**15,792**	**27,062**	**8,937**

39. DEFERRED INCOME TAX *(continued)*

No deferred income tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

Deferred income tax assets

2009

	Loss available for offset against future taxable profit *RMB'000* (Restated)	Early retirement benefits *RMB'000* (Restated)	Other deductible temporary differences *RMB'000* (Restated)	Total *RMB'000* (Restated)
Group				
At 1 January 2009				
— As previously reported	7,422	6,384	35,301	49,107
— Acquisition of LTRI	—	—	—	—
— As restated	7,422	6,384	35,301	49,107
Classified as liabilities directly associated with the assets classified as held for sale	—	668	666	1,334
Deferred income tax (debited)/credited to the income statement during the year *(Note 11)*	(7,422)	6,947	10,611	10,136
Disposal of subsidiaries *(Note 44)*	—	(668)	(666)	(1,334)
Deferred income tax assets at 31 December 2009	—	13,331	45,912	59,243

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

39. DEFERRED INCOME TAX *(continued)*

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

Deferred income tax assets *(continued)*

2010

	Loss available for offset against future taxable profit *RMB'000*	Early retirement benefits *RMB'000*	Other deductible temporary differences *RMB'000*	Total *RMB'000*
Group				
At 1 January 2010				
— As previously reported	—	13,331	45,912	59,243
— Acquisition of LTRI	—	—	—	—
— As restated	—	13,331	45,912	59,243
Deferred income tax (debited)/credited to the income statement during the year *(Note 11)*	—	310	(20,874)	(20,564)
Deferred income tax assets at 31 December 2010	—	13,641	25,038	38,679

	Loss available for offset against future taxable profit *RMB'000*	Early retirement benefits *RMB'000*	Other deductible temporary differences *RMB'000*	Total *RMB'000*
Company				
At 1 January 2010	—	12,276	39,962	52,238
Deferred income tax (debited)/credited to the income statement during the year	—	279	(24,622)	(24,343)
Deferred income tax assets at 31 December 2010	—	12,555	15,340	27,895

39. DEFERRED INCOME TAX *(continued)*

Deferred income tax assets *(continued)*

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Tax losses - PRC	**202,750**	364,669
Asset provision	**181,552**	364,801
Other deductible temporary differences	**46,830**	69,692
	431,132	799,162

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
For purpose of disclosure:				
Deferred income tax assets	**38,679**	59,243	**27,895**	52,238
Deferred income tax liabilities	**(27,062)**	(13,109)	**(8,937)**	(12,487)
Net book amount at 31 December	**11,617**	46,134	**18,958**	39,751

Deferred income tax assets have not been recognised in respect of these unused tax losses and other deductible temporary differences, as they have arisen in companies that have been loss-making for some time and their future profit streams are unpredictable, rendering the underlying recoverability of the deferred income tax assets uncertain. The unused tax losses will be available within five years for offsetting against future taxable profits of the companies in which the losses arose.

There were no income tax consequences in relation to the payment of dividends by the Company to its shareholders.

40. ISSUED CAPITAL

	Company	
	2010	2009
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**443,910**	443,910
H shares of RMB1.00 each	**401,990**	401,990
	845,900	845,900

41. 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 77 to 78 of the consolidated 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, expand the production operations of the Company, or to increase its paid-up capital.

Pursuant to the relevant laws and regulations, certain subsidiaries of the Group which are Sino-foreign joint ventures registered in the PRC, certain profits of these subsidiaries are required to be and have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

During the year, the Company and its subsidiaries' aggregate appropriations to the SSR, the reserve fund and the enterprise expansion fund, as dealt with in the Group's consolidated financial statements, were approximately RMB21,971,000 (2009: approximately RMB24,020,000).

During the year, no reserve fund (2009: Nil) and the enterprise expansion fund (2009: Nil), as dealt with in the Group's consolidated financial statements, were appropriated by the Company and its subsidiaries.

41. RESERVES *(continued)*

(a) Group *(continued)*

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

Pursuant to the relevant PRC regulations, YTO Finance, being a non-bank subsidiary financial institution of the Group, is required to transfer a certain amount of its profit, based on 1% of realised net profit for the year (2009: 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 earnings.

(b) Company

	Note	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Available-for-sale financial assets reserve RMB'000	Capital reserve RMB'000	Retained earnings 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 and 1 January 2010		**1,539,938**	**87,458**	**48,388**	**70,758**	**—**	**113,870**	**1,860,412**
Profit for the year	12	**—**	**—**	**—**	**—**	**—**	**219,015**	**219,015**
Changes in fair values of available-for-sale financial assets		**—**	**—**	**—**	**(20,115)**	**—**	**—**	**(20,115)**
Recognition of deferred income	38	**—**	**—**	**—**	**—**	**7,990**	**—**	**7,990**
Final 2009 dividend paid		**—**	**—**	**—**	**—**	**—**	**(101,508)**	**(101,508)**
Proposed final 2010 dividend	13	**—**	**—**	**—**	**—**	**—**	**(67,672)**	**(67,672)**
Transfer (from)/to reserves		**—**	**21,971**	**—**	**—**	**—**	**(21,971)**	**—**
At 31 December 2010		**1,539,938**	**109,429**	**48,388**	**50,643**	**7,990**	**141,734**	**1,898,122**

41. RESERVES *(continued)*

(b) Company *(continued)*

During the year, the Company appropriations to the SSR amounted to approximately RMB21,971,000 (2009: approximately RMB17,857,000).

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

As at 31 December 2010, the Company has retained profits of approximately RMB141,734,000 (2009: approximately RMB113,870,000) available for distribution by way of cash or cash in kind.

As at 31 December 2010, in accordance with the Company Law of the PRC, an amount of approximately RMB1.54 billion (2009: 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.

42. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 30 June 2010, the Company acquired an additional 2.4% equity interest in YLTM for a purchase consideration of approximately RMB1,139,000. The carrying amount of the non-controlling interests in YLTM on the date of acquisition was approximately RMB3,646,000. The Group recognised a decrease in non-controlling interests of approximately RMB954,000 and a decrease in equity attributable to owners of the parent of approximately RMB185,000. The effect of changes in the ownership interest of YLTM on the equity attributable to owners of the Company during the year is summarised as follows:

	2010 *RMB'000*
Carrying amount of non-controlling interests acquired	**954**
Consideration paid to non-controlling interests	**(1,139)**
Excess of consideration paid recognised in capital reserve within equity	**(185)**

43. ACQUISITION OF SUBSIDIARIES

In 2010, the Group acquired four subsidiaries from independent third parties. The acquired subsidiary group is principally engaged in the manufacture and sale of agricultural machinery.

The acquisition was accounted for using the purchase method.

Net assets acquired in the transactions are as follows:

	Note	**Fair value** *RMB'000*
Net assets acquired:		
Investment properties	16	35,572
Property, plant and equipment	15	917
Prepaid operating leases	17	30,499
Available-for-sale financial assets		7,048
Inventories		887
Trade and bill receivables		858
Prepayments, deposits and other receivables		106
Cash and cash equivalents		23,127
Trade and bill payables		(11,555)
Other payables and accruals		(34,080)
Borrowings		(4,000)
Deferred income tax liabilities	39	(12,815)
Net assets acquired		36,564
Non-controlling interests		(2,170)
Interest transfer from associates		(12,239)
Total consideration		22,155
Total consideration satisfied by:		
Cash		22,155
Net cash inflow arising on acquisition		
Cash consideration paid		(22,155)
Cash and cash equivalents acquired		23,127
Net cash inflow		972

43. ACQUISITION OF SUBSIDIARIES *(continued)*

Included in the revenue and profit for the year are approximately RMB2,161,000 and RMB343,000 attributable to the additional business generated by these new acquired subsidiaries.

Had these business combinations been effected on 1 January 2010, the revenue of the Group would be approximately RMB10,139,026,000, and profit for the year of the Group would be approximately RMB565,748,000. The directors of the Company consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and a reference point for comparison in future periods.

i) On 2 April 2010, the Company signed a "Share Transfer Agreement" to acquire 35.85% equity interest of three subsidiaries in Shanghai Dragon from independent third parties for a total consideration of approximately RMB21,164,000. As at 31 December 2010, the Company held a 93.83% equity interest in the acquired subsidiaries. The acquired subsidiaries are principally engaged in trading of agricultural machinery.

Net assets acquired in the transactions are as follows:

	Fair value *RMB'000*
Net assets acquired:	
Investment properties	35,572
Property, plant and equipment	392
Prepaid operating leases	30,499
Available-for-sale financial assets	7,048
Prepayments, deposits and other receivables	8
Cash and cash equivalents	23,079
Trade and bill payables	(11,049)
Other payables and accruals	(33,568)
Borrowings	(4,000)
Deferred income tax liabilities	(12,815)
Net assets acquired	35,166
Non-controlling interests	(2,170)
Interest transfer from associates	(11,832)
Total consideration	21,164
Total consideration satisfied by:	
Cash	21,164
Net cash inflow arising on acquisition	
Cash consideration paid	(21,164)
Cash and cash equivalents acquired	23,079
Net cash inflow	1,915

Included in the revenue and profit for the year are approximately RMB382,000 and RMB363,000 attributable to the additional business generated by Shanghai Dragon.

43. ACQUISITION OF SUBSIDIARIES *(continued)*

ii) On 1 March 2010, the Group has acquired a 100% equity interest in Luoyang Xinyan Material Mechanical Engineering Company Limited ("Luoyang Xinyan") for a consideration of approximately RMB991,000 from independent third party. The acquired subsidiary is principally engaged in the trading of agricultural machinery.

Net assets acquired in the transactions are as follows:

	Fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	525
Inventories	887
Trade and bill receivables	858
Prepayments, deposits and other receivables	98
Cash and cash equivalents	48
Trade and bill payables	(506)
Other payables and accruals	(512)
Net assets acquired	1,398
Interest transfer from associates	(407)
Total consideration	991
Total consideration satisfied by:	
Cash	991
Net cash inflow arising on acquisition	
Cash consideration paid	(991)
Cash and cash equivalents acquired	48
Net cash outflow	(943)

Included in the revenue and profit for the year are approximately RMB1,779,000 and loss for the year of approximately RMB20,000 attributable to the additional business generated by Xinyan.

44. DISPOSAL OF SUBSIDIARIES

(i) In 2010, the Group entered into Equity Transfer Agreements with the Holding to dispose of four wholly owned subsidiaries, YTO (Luoyang) Construction Machinery Co., Ltd, YTO (Luoyang) Building Machinery Co., Ltd, YTO (Luoyang) Jiangong Machinery Co., Ltd and YTO (Luoyang) Construction Machinery Sales Co., Ltd for a consideration of approximately RMB 272,839,000. The transaction was completed on 9 October 2010. The principal activities of the subsidiaries are the manufacture and sale of road construction machinery.

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

	Note	**2010** ***RMB'000***
Net assets disposed of:		
Property, plant and equipment	15	**77,467**
Prepaid operating leases	17	**2,339**
Available-for-sale financial assets		**30,000**
Pledged bank deposits		**74,754**
Cash and cash equivalents		**96,894**
Inventories		**248,378**
Trade and bill receivables		**120,644**
Prepayments, deposits and other receivables		**23,810**
Borrowings		**(86,900)**
Trade and bill payables		**(354,251)**
Other payable and accruals		**(52,961)**
Tax payables		**(2,154)**
Provisions	37	**(13,960)**
		164,060
Gain on disposal of subsidiaries	6, 7	**108,779**
		272,839
Satisfied by:		
Cash		**272,839**
Net cash inflow in respect of the net assets disposed:		
Cash consideration		**272,839**
Cash and bank balances disposed of		**(171,648)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		**101,191**

44. DISPOSAL OF SUBSIDIARIES *(continued)*

(ii) The Group entered into two agreements for the disposal of its 59% equity interest in three subsidiaries, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), Zhenjiang Huatong Aran Machinery Company Limited and Yituo (Luoyang) Lutong Construction Machinery Company Limited, to independent third parties during 2009. The transactions were completed on 30 April 2009 and 30 June 2009, respectively. The principal activities of the subsidiaries are the manufacture and sale of construction machinery.

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

		2009
		RMB'000
Net assets disposed of:		
Property, plant and equipment	15	61,388
Prepaid operating leases	17	8,341
Deferred tax assets	39	1,334
Available-for-sale financial assets		2,014
Pledged bank deposits		10,064
Cash and cash equivalents		37,868
Inventories		77,882
Trade and bill receivables		112,774
Prepayments, deposits and other receivables		173,687
Borrowings		(97,500)
Trade and bill payables		(137,656)
Other payables and accruals		(95,101)
Tax payables		(761)
Provisions	37	(134)
Deferred income	38	(2,244)
Non-controlling interests		(69,779)
		82,177
Gain on disposal of subsidiaries	6, 7	29,648
		111,825

44. DISPOSAL OF SUBSIDIARIES *(continued)*

(ii) The Group entered into two agreements for the disposal of its 59% equity interest in three subsidiaries, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), Zhenjiang Huatong Aran Machinery Company Limited and Yituo (Luoyang) Lutong Construction Machinery Company Limited, to independent third parties during 2009. The transactions were completed on 30 April 2009 and 30 June 2009, respectively. The principal activities of the subsidiaries are the manufacture and sale of construction machinery. *(continued)*

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

	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

45. BUSSINESS COMBINATION UNDER COMMON CONTROL

On 30 November 2010, the Group acquired a 51% equity interest in LTRI, which is principally engaged in the research and development of agricultural machinery, from the Holding at a cash consideration of approximately RMB155,333,000. No significant adjustments were made to the net assets and net profit of LTRI as a result of the common control combination to achieve consistency of accounting policies.

As mentioned in Note 2.1(a) to the consolidated financial statements, the Group has applied merger accounting as prescribed in AG5 to account for the business combination under common control. Accordingly, LTRI has been combined since 1 January 2009, the earliest financial period presented, as if the acquisition had been occurred at that time.

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2010, 2009 and 2008 is as follows:

	2010			
	The Group excluding LTRI	**LTRI**	**Adjustments**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets and liabilities				
Investment in a subsidiary	155,333	—	(155,333)	—
Other non-current assets	2,079,214	348,588	—	2,427,802
Cash and cash equivalents	1,155,006	18,311	(11,155)	1,162,162
Other current assets	4,522,400	119,668	(38,696)	4,603,372
Customer deposits	(562,362)	—	11,155	(551,207)
Other current liabilities	(3,211,984)	(180,618)	38,696	(3,353,906)
Other non-current liabilities	(799,277)	(10,623)	—	(809,900)
Net assets	3,338,330	295,326	(155,333)	3,478,323
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	185,000	(185,000)	845,900
Reserves	2,241,764	110,326	(115,042)	2,237,048
	3,087,664	295,326	(300,042)	3,082,948
Non-controlling interests	250,666	—	144,709	395,375
Total equity	3,338,330	295,326	(155,333)	3,478,323

45. BUSSINESS COMBINATION UNDER COMMON CONTROL *(continued)*

	2009			
	The Group excluding LTRI	LTRI	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)			
Assets and liabilities				
Other non-current assets	1,627,787	47,438	—	1,675,225
Cash and cash equivalents	915,181	29,388	(15,509)	929,060
Other current assets	3,247,252	58,510	(24,535)	3,281,227
Customer deposits	(296,245)	—	15,509	(280,736)
Other current liabilities	(2,336,361)	(37,141)	24,535	(2,348,967)
Other non-current liabilities	(205,010)	(11,896)	—	(216,906)
Nets assets	2,952,604	86,299	—	3,038,903
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	55,000	(55,000)	845,900
Reserves	1,814,828	31,299	12,714	1,858,841
Proposed final dividends	101,508	—	—	101,508
	2,762,236	86,299	(42,286)	2,806,249
Non-controlling interests	190,368	—	42,286	232,654
Total equity	2,952,604	86,299	—	3,038,903

45. BUSSINESS COMBINATION UNDER COMMON CONTROL *(continued)*

	2008			
	The Group excluding LTRI	**LTRI**	**Adjustments**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)			
Assets and liabilities				
Other non-current assets	1,631,502	48,221	—	1,679,723
Cash and cash equivalents	758,535	15,010	—	773,545
Other current assets	3,092,350	106,393	(26,142)	3,172,601
Customer deposits	(198,217)	—	9,415	(188,802)
Other current liabilities	(2,307,036)	(70,428)	16,727	(2,360,737)
Other non-current liabilities	(287,687)	(9,864)	—	(297,551)
Nets assets	2,689,447	89,332	—	2,778,779
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	55,000	(55,000)	845,900
Reserves	1,623,701	34,332	11,228	1,669,261
Proposed final dividends	42,295	—	—	42,295
	2,511,896	89,332	(43,772)	2,557,456
Non-controlling interests	177,551	—	43,772	221,323
Total equity	2,689,447	89,332	—	2,778,779

The above adjustments represent adjustments to eliminate the paid-up capital of LTRI against the Group's investment cost in LTRI, current accounts between Group companies and LTRI, and the cash deposit in FTFG by LTRI as at 31 December 2010, 2009 and 2008, respectively.

45. BUSSINESS COMBINATION UNDER COMMON CONTROL *(continued)*

The effect of the business combination of entities under common control, described above, on the Group's basic and diluted earnings per share for the year ended 31 December 2009 is as follows:

	Group	
	Impact on basic earnings per share	**Impact on diluted earnings per share**
	RMB'000	*RMB'000*
Reported figures before restatement	28.90 cents	28.90 cents
Restatement arising from business combination of entities under common control	0.48 cents	0.48 cents
Restated	29.38 cents	29.38 cents

The effect of business combination of entities under common control described above on the Group's net profit for the year ended 31 December 2009 is as follows:

	Group
	Net profit
	RMB'000
Report figures before restatement	273,945
Restatement arising from business combination of entities under common control	7,967
Restated	281,912

46. 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% (2009: 20%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.

(b) In addition, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on various factors, including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of these early retirees. The costs of early retirement benefits are recognised in the period in which employees opt for early retirement.

47. 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 2010, the Group had not given any corporate guarantees (2009: approximately RMB30,000,000) to any banks for securing credit facilities granted to subsidiaries of the Holding. In 2009, the facilities were utilised in aggregate to the extent of approximately RMB30,000,000.

As at 31 December 2008, ZHHRM, a former subsidiary of the Group, had provided a guarantee to a bank for securing an outstanding loan of approximately RMB14,000,000 granted to a previous customer of the Group. The borrower defaulted on repayment of the bank loan when it was due on 28 October 2007, and a receivable of approximately RMB19,000,000 owed to the borrower was frozen by a court order for the purpose of settlement of the bank loan. A non-controlling shareholder of ZHHRM, Jiangsu Huatong Machinery Co., Ltd. ("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 approximately RMB16,000,000 for securing the settlement of the bank loan, and ZHHRM's bank balance of approximately RMB760,000 was frozen at the date of these consolidated 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 an 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% equity interest in ZHHRM in 2009, the Group was no longer liable for the aforesaid guarantee provided by ZHHRM. Further details of this transaction are included in Note 44 to the consolidated financial statements.

47. CONTINGENT LIABILITIES *(continued)*

Company

As at 31 December 2010, the Company had not given any corporate guarantees (2009: approximately RMB183,000,000) and had given corporate guarantees of approximately RMB44,500,000 (2009: approximately RMB101,000,000) to YTO Finance and certain banks, respectively, for securing credit facilities granted by YTO Finance and several banks to certain subsidiaries. The facilities from YTO Finance and certain banks were utilised in aggregate to the extent of approximately RMB44,500,000 (2009: approximately RMB225,000,000).

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

48. PLEDGE OF ASSETS

Details of the Group's bill payables and borrowings, which are secured by certain assets of the Group, are included in Notes 31 and 36 to the consolidated financial statements, respectively.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings (Note 15) under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 31 December 2010 and 2009, the Group and the Company had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within one year	**593**	385	**424**	—
In the second to fifth years, inclusive	**810**	—	**681**	—
	1,403	385	**1,105**	—

49. 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 two years with renewal options, and those for plant and machinery are for terms of one year with renewal options.

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within one year	**35,346**	23,602	**12,739**	7,299
In the second to fifth years, inclusive	**35,346**	47,203	**12,739**	14,599
	70,692	70,805	**25,478**	21,898

50. COMMITMENTS

In addition to the operating lease commitments detailed in Note 49(b) above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Contracted, but not provided for:				
Purchases of plant and machinery	**214,042**	47,710	**211,203**	47,710
Acquisition of a subsidiary	**—**	5,002	**—**	—
	214,042	52,712	**211,203**	47,710
Authorised, but not contracted for:				
Purchases of plant and machinery	**1,107,856**	914,683	**887,798**	882,693
Additional capital contribution into a subsidiary	**—**	—	**—**	75,000
	1,107,856	914,683	**887,798**	957,693
	1,321,898	967,395	**1,099,001**	1,005,403

51. RELATED PARTY TRANSACTIONS

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

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

	Note	2010 *RMB'000*	2009 *RMB'000* (Restated)
Sale of raw materials, finished goods and components	(i)	**537,086**	421,433
Purchases of raw materials and components	(ii)	**1,296,440**	1,118,041
Purchases of utilities	(iii)	**110,653**	98,439
Fees paid for welfare and support services	(iv)	**36,910**	36,116
Fees paid for transportation services	(iv)	**59,472**	36,904
Research and development expenses paid	(v)	**22,545**	4,746
Fees paid for the use of land	(vi)	**25,465**	19,748
Fees paid for the use of a trademark	(vii)	**17,609**	14,740
Rentals paid in respect of:			
Buildings	(viii)	**8,014**	4,011
Plant and machinery	(ix)	**2,220**	71
Rental income received in respect of buildings	(x)	**5,431**	4,269
Sale of plant and machinery	(xi)	**2,458**	—
Purchases of plant and machinery	(xi)	**152,466**	—
Interest income and discounted bill charges	(xii)	**27,806**	21,156
Interest paid for customer deposits	(xiii)	**1,486**	1,007
Service charge for a guarantee	(xiv)	**—**	150
Research and development expenses received	(xv)	**7,123**	11,135

Notes:

(i) Pursuant to relevant agreements, the pricing in respect of the sale of raw materials, finished goods and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

51. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(ii) Pursuant to the relevant agreements, the pricing in respect of purchases of raw materials and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iii) Pursuant to relevant agreements, the pricing in respect of purchases of utilities is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iv) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2009: 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 RMB26,852,000 (2009: approximately RMB19,748,000) 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% (2009: 0.15% to 0.2%) of the Company's net annual turnover and 0.4% (2009: 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.

51. RELATED PARTY TRANSACTIONS *(continued)*

(a) The material transactions carried out between the Group and the Holding and its subsidiaries 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 and sale 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 YTO Finance to members of the Holding group. Pursuant to the relevant agreements, the transactions were conducted with reference to the terms and rates stipulated by the PBOC.

(xiii) The interest paid for customer deposits relates to the customer deposits placed in YTO Finance by the Holding 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 YTO Finance. 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 the PRC.

(xv) Pursuant to relevant agreements, the pricing in respect of routine research and development services rendered is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

51. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2010, the Holding has placed an aggregate amount of approximately RMB47,000,000 (2009: RMB67,500,000) with YTO Finance to provide entrusted loans to the fellow subsidiaries and an associate of the Holding.

Since the credit risk is borne by the depositors, the related assets and liabilities of these lending transactions by the depositors are not included in the consolidated financial statements.

(ii) Material transactions carried out between the Group and the ultimate holding company and its subsidiaries during the year

During the year, the Group sold raw materials, finished goods and components of approximately RMB68,209,000 (2009: approximately RMB34,052,000) and purchased raw materials and components of approximately RMB8,936,000 (2009: Nil) from the ultimate holding company and its subsidiaries.

The terms of transactions are equivalent to similar transactions carried out between the Group and the Holding and its subsidiaries and related companies (disclosed in Note 51a).

(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 Note 22, 24, 25, 31, 32 and 33 to the consolidated financial statements.

(ii) Details of the Group's amounts due from and deposits from its associates as at the end of the reporting period are included in Note 24 and 33 to the consolidated financial statements, respectively.

(iii) Details of the Group's amounts due from/to with its related companies (fellow subsidiaries and associates of the Holding) as at the end of the reporting period are disclosed in Note 22, 24, 25, 31, 32 and 33 to the consolidated financial statements.

(iv) Details of the Group's amounts due from/to the non-controlling interests as at the end of the reporting period are disclosed in Note 32 to the consolidated financial statements.

51. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group

	2010	2009
	RMB'000	*RMB'000*
Short term employee benefits	**1,551**	1,343
Post-employment benefits	**—**	268
Total compensation paid to key management personnel	**1,551**	1,611

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

52. SUBSEQUENT EVENTS

On 7 March 2011, the Commercial Court of Charmont in France declared that YTO France SAS, a wholly-owned subsidiary of the Company, won the bid for the acquisition of certain assets of Mc Cormick France SAS, at the bidding price of EUR8,000,000 (approximately RMB73,193,000). The assets acquired included land use rights, plant and machinery and technical know-how.

The Board believes that the assets acquired will perfect the power range of the powershift transmission systems of the Group, thereby enabling the Group to have full control of the powershift techniques for tractors.