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

Annual Report 2011

CONTENTS

CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY

First Tractor Company Limited

REGISTERED ADDRESS OF THE COMPANY

154 Jianshe Road

Luoyang, Henan Province

The People's Republic of China (the "**PRC**")

Postal code: 471004

WEBSITE OF THE COMPANY

http://www.first-tractor.com.cn

BUSINESS REGISTRATION NUMBER

410000400013049

LEGAL REPRESENTATIVE OF THE COMPANY/CHAIRMAN OF THE BOARD

Mr. Zhao Yanshui

VICE CHAIRMAN OF THE BOARD

Mr. Su Weike

EXECUTIVE DIRECTORS

Mr. Zhao Yanshui

Ms. Dong Jianhong

Mr. Qu Dawei

Mr. Liu Jiguo

NON-EXECUTIVE DIRECTORS

Mr. Su Weike

Mr. Yan Linjiao

Mr. Liu Yongle

Mr. Li Youji *(resigned on 29 Janaury 2012)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Luo Xiwen

Mr. Chan Sau Shan, Gary

Mr. Hong Xianguo

Mr. Zhang Qiusheng

CHAIRMAN OF BOARD OF SUPERVISORS

Mr. Zheng Luyu

SUPERVISORS

Ms. Yi Liwen

Mr. Wang Yong

Mr. Huang Ping

Mr. Shao Jianxin *(Staff Representative Supervisor)*

Mr. Wang Jianjun *(Staff Representative Supervisor)*

COMPANY SECRETARY

Ms. Yu Lina

STRATEGY & INVESTMENT COMMITTEE

Mr. Zhao Yanshui *(chairman)*

Mr. Su Weike

Mr. Yan Linjiao

Mr. Liu Jiguo

Mr. Zhang Qiusheng

NOMINATION COMMITTEE

Mr. Luo Xiwen *(chairman)*

Mr. Hong Xianguo

Mr. Zhao Yanshui

REMUNERATION COMMITTEE

Mr. Luo Xiwen *(chairman)*

Mr. Chan Sau Shan, Gary

Mr. Hong Xianguo

Mr. Liu Yongle

Ms. Dong Jianhong

AUDIT COMMITTEE

Mr. Chan Sau Shan, Gary *(chairman)*

Mr. Zhang Qiusheng

Mr. Yan Linjiao

AUTHORISED REPRESENTATIVES OF THE COMPANY

Ms. Dong Jianhong

Ms. Yu Lina

COMPANY'S AUDITORS

INTERNATIONAL

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THE PRC

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A12 Jianguo Menwai Avenue

Beijing City, the PRC

Postal Code: 100022

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Li & Partners

22/F, Worldwide House

Central, Hong Kong

CORPORATE INFORMATION *(continued)*

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The Stock Exchange of Hong Kong Limited

Stock Code: 00038

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Hong Kong Registrars Limited

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Tel: (852) 2851 1038

Fax: (852) 2851 1352

MAJOR EVENTS IN 2011

March

- The First Tractor Company Limited (the "**Company**") completed the acquisition of the assets of Mc Cormick France SAS ("**McC France**") and established YTO France SAS ("**YTO France**").
- The Company announced the 2010 annual results.

June

- The 2010 annual general meeting of the Company approved the resolutions of 2010 annual report of the Company and the election of Mr. Su Weike, Mr. Li Youji and Mr. Liu Jiguo as additional directors of the Company (the "**Directors**"), and considered and approved matters regarding purchase of certain lands and relevant buildings from YTO Group Corporation (中國一拖集團有限公司) ("**YTO**"). The capital increase in YTO (Luoyang) Fuel Injection Pump Co ., Ltd (一拖(洛陽)燃油噴射有限公司) ("**YTO Injection Pump**") , a subsidiary of the Company, made by YTO by injecting the land and relevant buildings as capital contribution was completed.
- The Company completed the acquisition of the 100% equity interests in YTO International Economic and Trading Co., Ltd (一拖國際經濟貿易有限公司) ("**YTO International**") and the 100% equity interest in YTO (Luoyang) Forklift Co., Ltd (一拖(洛陽)叉車有限公司) ("**YTO Forklift**").

August

- The Company announced its 2011 interim results.
- The Company and its subsidiary YTO (Luoyang) Diesel Engine Co., Ltd (一拖(洛陽)柴油機有限公司) ("**YTO Diesel**") completed the transfer of the purchased assets including certain land and relevant buildings originally leased to the Company by YTO.
- The resolution in relation to the refreshment of specific mandate for the issue of A shares of the Company was passed at the extraordinary general meeting and the respective class meetings for holders of domestic shares and H shares of the Company. In addition, in order to reflect the change in the business scope of the Company, the amendments to the articles of association of the Company ("**Articles of Association**") were approved at the extraordinary general meeting of the Company.

YTO France

Dongfanghong - LX2204 tractors rolling off the production line in batch

MAJOR EVENTS IN 2011 *(continued)*

September

- The Company completed the transfer of such intangible assets including the registered trademarks "东方红" acquired from YTO.
- The Company established and invested in YTO Heilongjiang Agricultural Machinery Co., Ltd. (一拖黑龍江農業機械有限公司) ("**YTO Heilongjiang Company**") in Qiqihar city, Heilongjiang province.
- Dongfanghong- LX 2204 tractors rolled off the production line in batch.
- 32 units of Dongfanghong LX-904 hi-powered tractors were delivered to the users in Tibet Autonomous Region as the first national brand agricultural machinery entered the market in Tibet Autonomous Region.

October

- The Company and its subsidiaries, YTO Diesel, Luoyang Tractors Research Co., Ltd (洛陽拖拉機研究所有限公司) ("**Tractors Research Company**"), Luoyang Siyuan Vehicles and Motor Examination Company Limited (洛陽西苑車輛與動力檢驗有限公司) ("**Siyuan Motor**"), were recognized as new and high tech enterprises jointly by the Technology Department , Finance Department, State Administration of Taxation of Henan Province and Henan Local Taxation Bureau.

December

- The board (the "**Board**") of Directors of the Company approved amendments to the Articles of Association (Draft) (the "**Articles of Association (Draft)**") to further nail down the Company's dividend distribution policy. The amendments to the Articles of Association (Draft) were approved at the Company's first extraordinary general meeting 2012 and shall come into effect upon completion of the issue of A shares.
- The Dongfanghong hi-powered wheeled tractor of the Company successfully won the bid for the Project of Government Procurement of Tractors as Prizes for 300 Outstanding Grain Production and Sale Households 2011 of the State Council.

Dongfanghong hi-powered wheeled tractors being delivered to Tibet

Dongfanghong prize tractors waiting for delivery

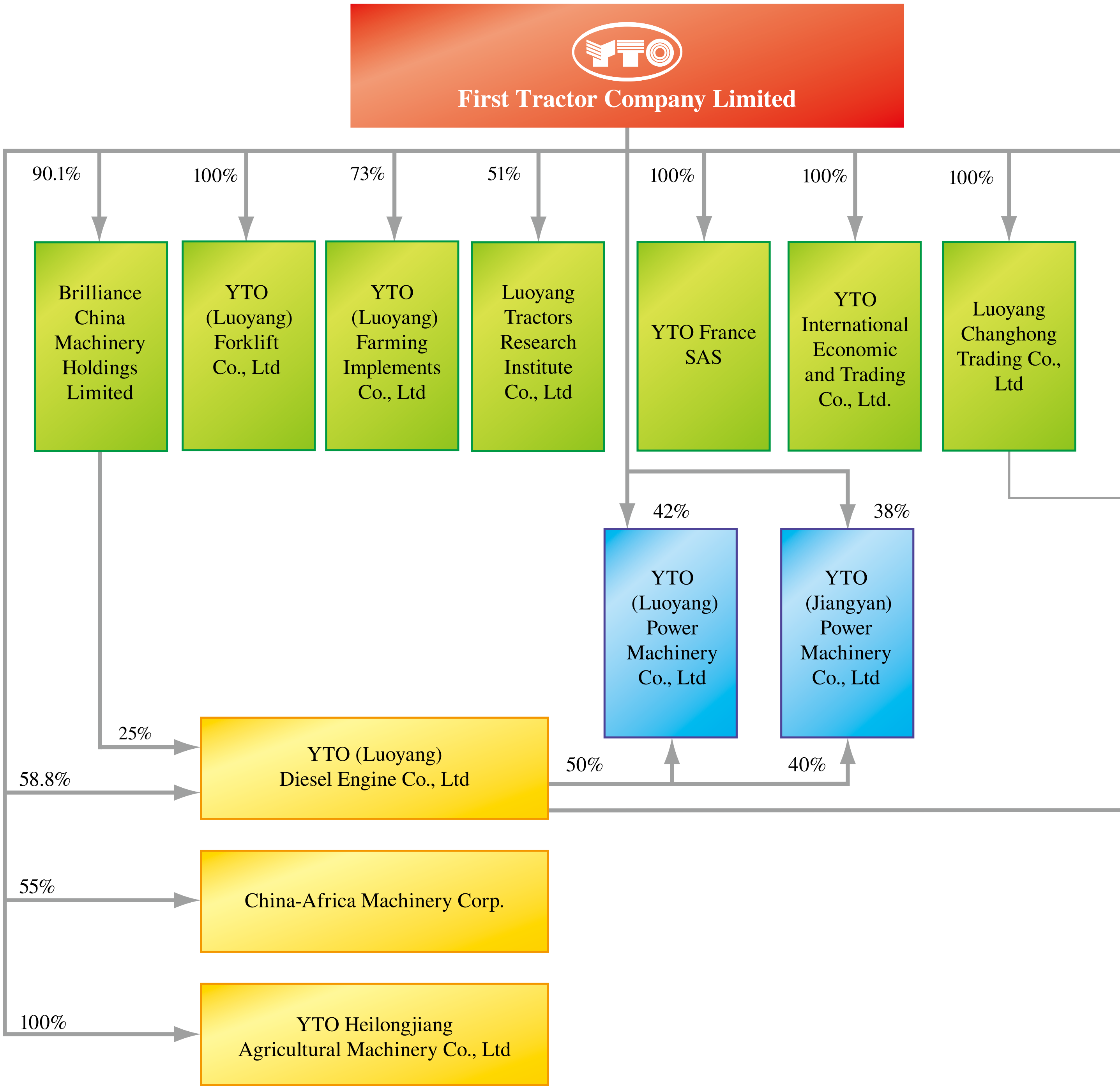
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
REVENUE	**11,328,545**	10,265,832
Finance costs	**(54,162)**	(28,166)
Share of profits of associates	**324**	1,247
Profit before income tax	**536,042**	646,142
Income tax expense	**(78,537)**	(84,093)
PROFIT FOR THE YEAR	**457,505**	562,049
Profit attributable to:		
Owners of the Company	**410,819**	542,670
Non-controlling interests	**46,686**	19,379
	457,505	562,049
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Basic and diluted earnings per share	**RMB48.57 cents**	RMB64.15 cents

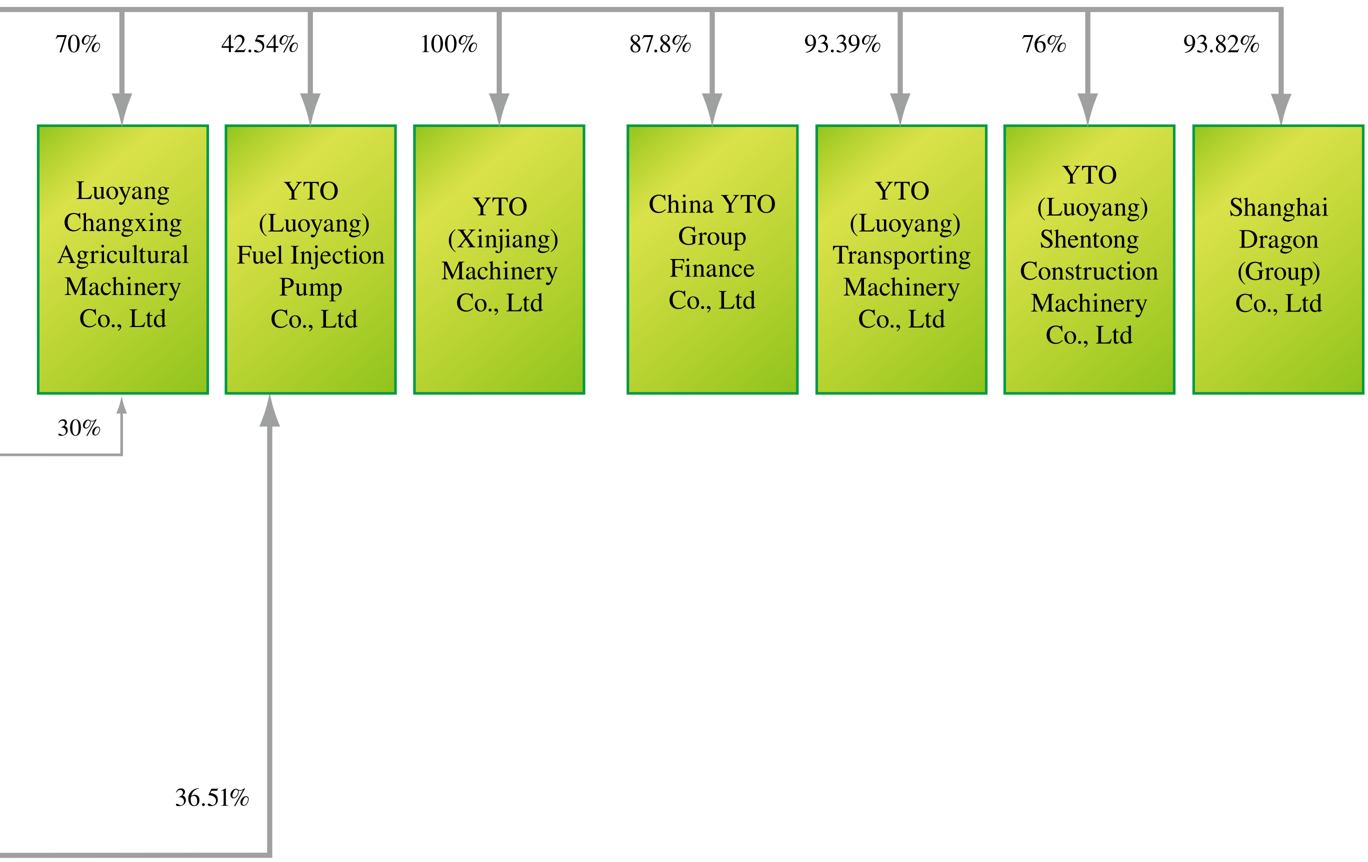
Note: "Restated" represents retrospective adjustment was made to 2010 figures in accordance with the requirements of standards on business combination under common control.

CORPORATE STRUCTURE

Structure of First Tractor Company Limited



CORPORATE STRUCTURE *(continued)*



CHAIRMAN'S STATEMENT

Zhao Yanshui
Chairman

Dear shareholders,

On behalf of the Board of Directors of the Company, I am pleased to present the report of annual results (the "**Annual Report**") of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2011 (the "**Reporting Period**") for your review.

BUSINESS REVIEW

The year of 2011 witnessed a slowdown of the world's economic growth, upheaval in the international financial markets and a noticeable increase in various types of risks. In terms of the domestic environment, the economy of China showed a steady slowdown trend. Downward pressure on economic growth also increased. With more fluctuations in the prices of bulk raw materials, the economic climate was complex. The agricultural machinery industry, however, by benefiting from a series of state policies of "agriculture, countryside and farmers", continued to maintain a steady growth.

During the Reporting Period, in face of a complicated and capricious macro environment and a grave situation with increasing difficulty in operation and management, the Group maintained a steady growth momentum on the whole by focusing on its core resources, core businesses and core markets, enhancing resources collaboration and optimization, proactively grasping the pattern of industrial development and effectively implementing product structural adjustment.

In 2011, as the Group leveraged its competitive advantages and seized market opportunities, each of the businesses of the Group maintained a satisfactory growth momentum and sales of key products continued to grow. Sales of hi-powered, mid-powered and low-powered wheeled tractors amounted to 47,633 units, 34,880 units and 45,678 units respectively, representing a year-on-year increase of 8.4%, 38.6% and 17.8% respectively. The Group's hi-powered wheeled tractors continued to lead the market, whereas the mid-powered wheeled tractors moved up to the third in the market. 168,896 units of diesel engines were sold, representing a year-on-year increase of 14.5%, of which, 114,536 units were sold to the external customers of the Group, representing a year-on year increase of 25.9%.

During the Reporting Period, the Group recorded an operating revenue of RMB11,328,545,000, representing a year-on-year increase of 10%. However, due to factors such as losses incurred by a newly-consolidated enterprise at its early-stage integration and the non-recurrent revenue, the overall profit level of the Company declined. During the Reporting Period, net profit attributable to owners of the Company amounted to RMB410,819,000, representing a year-on-year decrease of 24.3%. Earnings per share was RMB0.4857, down RMB0.1558 over the corresponding period last year. Excluding the effects of factor such as loss incurred by the newly-consolidated company and the non-recurrent losses and profits, net profit attributable to owners of the Company during the Reporting Period still increased 11.2% year on year.

CHAIRMAN'S STATEMENT *(continued)*

In 2011, the Group steadily promoted its projects of key technology renovation. The batch production of 220-horsepower wheeled tractors has been achieved, the second trial production of powershift transmission tractors has completed, the research and development of the electronic control system of the diesel engines have achieved an important breakthrough; and project of hi-powered agricultural diesel engines (Phase 1) has completed. The construction project of Xinjiang base has completed the trial batch production and the construction project of Heilongjiang base proceeded in accordance with the set timetable, further improving the geographical presence of the Group's business; the construction projects of research and development progressed smoothly, the completion of projects will further enhance the Group's capability in research and development.

In March 2011, with a view to enhancing its core business competitiveness and perfecting its business chain, the Group successfully completed acquisition of the assets of McC France, which laid a foundation for rapid acquisition of the manufacture capability of powershift transmission system of tractors, upgrading of the technological level and competitive advantage of key products and continuous expansion of its market share in high-end tractors, and provided benefit for accelerating the integrated innovation and advancing its internationalised operation.

During the Reporting Period, in a bid to perfect the industrial chain, improve assets integrity and reduce connected transactions, the Group, from time to time, acquired the 100% equity interests in each of YTO Forklift and YTO International, the trademarks "东方红" and " " held by YTO, and certain lands and buildings for the Group's production and operation. The series of assets and business acquisitions, despite increasing the capital pressure of the Group in short term, have made the Group's productive factors more comprehensive, enhanced the independence and business synergy, and paved the way for further resources integration, market expansion and business co-ordination and planning.

During the Reporting Period, the Board of the Company actively responded to the requirement of the China Securities Regulatory Commission ("**CSRC**") in respect of the dividend distribution policy of listed companies, amended the Articles of Association (Draft) on the principle of ensuring continuity and stability of dividend distribution and taking into account the sustainable development of the Company and reasonable return to investors, in which provisions on dividend distribution policies has been added and approved at the Company's extraordinary general meeting. The Articles of Association (Draft) will come into force upon the issue of the Company's A shares.

In 2011, the Company continued its efforts to return to the A share market, and has obtained the approval from the Public Offering Review Committee of the CSRC for the Company's initial public offering of A shares on 11 January 2012, which marked a significant progress in its issue of A shares. Currently, the Company is awaiting the formal approval document from the CSRC.

PROSPECTS

In 2012, against the backdrop of a grim and complicated global economic outlook and rising instability and uncertainty in the world economic recovery, the PRC Government set the keynote for the national economic work in 2012 as "to make progress while ensuring stability". As the State endeavours to boost domestic demand as an important measure to stabilize economic growth, to develop grain and agricultural production as an important means to stabilize commodity prices, proactive fiscal policies such as increase in investment in "agriculture, countryside and farmers" will be fully reflected. Meanwhile, the State will attach more importance to developing the real economy. All these factors will provide a favourable external environment for the healthy operation of the Company.

Under the state policies of supporting and benefiting agriculture, the income of farmers recorded a relatively rapid growth for eight consecutive years. The structure of rural labour force in China, the way of organization of agricultural production and the way of organization of agricultural machinery production is in a profound stage of reform; in recent years, the State has, based on the Law on the Promotion of Agricultural Mechanization (《農業機械化促進法》), promulgated a series of important policy documents such as the Opinion On Promoting Agricultural Mechanization As Well As Rapid And Healthy Development Of Agricultural Machinery Industry (《國務院關於促進農業機械化和農機工業又好又快發展的意見》), the Government is now capitalizing on the prevailing circumstances to promote the change from the increase in quantity to enhancement in quality in agricultural mechanization; the agricultural machinery industry will enter into a transition period of rapid upgrade in future.

In 2012, however, pressures from declining domestic economy and inflation both exist, which will pose challenge to the Company's comprehensive operation capabilities, the Group will proactively seize opportunities, calmly deal with the challenges to face global competition, continuously improve operation capability; by focusing on structure optimization, promote transformation and upgrading; by strengthening management for excellence, facilitate corporate endogenous development. Specifically, the Group will speed up the commercialization of new products such as powershift transmission tractors and hi-powered agricultural diesel engines, to lead the tractor industry by technological upgrade of the products, continue to consolidate and promote the position of the Group's power machinery products in the field of off-highway power machinery; strengthen the support to YTO France so as to develop it into a production, marketing and R&D centre of the Group in Europe, vigorously promote the issue of A shares of the Company and use the fund to be raised in financing the construction of key projects, and intensify business reorganisation to consolidate internal and external resources, further improve the industrial chain and enhance business collaboration.

CHAIRMAN'S STATEMENT *(continued)*

In 2012, the Group will make full use of all favourable conditions, firmly grasp opportunities while demonstrating our edge, continue to provide high-quality products and services for customers, reward shareholders with even better operating results, benefit the staff, contribute to the society, and is committed to become an excellent global supplier of agricultural equipments.

I would like to avail myself of this opportunity to express heartfelt gratitude to all shareholders and persons of all circles for their support for the Group's growth and all employees for their dedication and devotion in the previous year.

Zhao Yanshui
Chairman

Luoyang, China
24 February 2012

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF PRINCIPAL BUSINESSES

During the Reporting Period, in order to improve its industrial chain, reduce its connected transactions and minimize potential business competition, the Company acquired, from its controlling shareholder YTO, 86.82% equity interest in YTO Forklift (as well as the remaining equity interest in YTO Forklift from its natural person shareholders), and 100% equity interest in YTO International. As the aforesaid acquisitions of equity interests constitute "business combinations under common control", relevant comparative figures in the consolidated financial statements have been restated, and accordingly, relevant financial figures mentioned in the discussion and analysis of the Group's principal businesses below are restated figures.

Unit: RMB'000

	Revenue					Segment results		
	2011		2010 (Restated)					
By segment	**Segment revenue**	**Revenue from external customers**	Segment revenue	Revenue from external customers	Change of revenue from external customers over last year *(%)*	**2011**	2010 (Restated)	Change over last year *(%)*
Agricultural machinery business	**9,879,261**	**9,356,125**	8,795,845	8,140,502	**14.9%**	**297,660**	257,374	**15.7%**
Power machinery business	**2,211,062**	**1,470,155**	1,942,066	1,225,215	**20.0%**	**191,227**	179,900	**6.3%**
Other machinery business	**494,472**	**436,128**	984,349	854,841	**-49.0%**	**(6,314)**	36,277	**—**
Financial business	**94,757**	**66,137**	61,704	45,274	**46.1%**	**53,797**	37,058	**45.2%**
Unallocated and eliminations	**(1,351,007)**	**—**	(1,518,132)	—	**—**	**(328)**	135,533	**—**
Total	**11,328,545**	**11,328,545**	10,265,832	10,265,832	**10.4%**	**536,042**	646,142	**-17.0%**

Notes:

1. During the Reporting Period, YTO International and YTO France which were newly merged by the Company were categorized in the segment of agricultural machinery business. YTO Forklift was categorized in the segment of other machinery business.

2. "Restated" represents retrospective adjustments made to 2010 figures in accordance with the requirements of "business combinations under common control".

3. "Other machinery business" in 2010 included the revenue from external customers and segment results of the four construction machinery companies (which were disposed by the Group at the end of September 2010) for the period from January to September in 2010.

4. "Unallocated and eliminations" mainly includes finance costs, interests, dividends and investment income, etc.

AGRICULTURAL MACHINERY BUSINESS

In 2011, in the face of a complex and volatile international landscape and the new conditions and difficulties in domestic economic operation, the State continued to adopt the proactive fiscal policy and prudent monetary policy. The overall national economy operated smoothly. Despite being affected by such factors as prices of raw materials hovering at high levels, rise in labor cost and tight monetary policies, China's agricultural machinery industry, benefiting from the favourable policies of the State to support "agriculture, countryside and farmers", still maintained a steady growth. The comprehensive mechanization rate in cultivation, planting and harvesting was estimated to be over 54.5%, representing a year-on-year increase of 2.2 percentage points. According to the statistics from China's tractor industry, during the Reporting Period, 371,189 units of hi-powered and mid-powered tractors were sold in the country, representing a year-on-year increase of 14.8%, and 384,309 units of low-powered tractors were sold, representing a year-on-year increase of 8.8%. In addition, export of agricultural machineries continued to grow at a fast pace, with the export of hi-powered and mid-powered tractors recorded a year-on-year increase of 49.7%.

During the Reporting Period, the Group, while adhering to the overall guideline of "increasing efforts in market development and enhancing competitiveness in the market", effectively promoted product sales through strengthened marketing planning and flexible use of product pricing strategy with an accurate grasp of market dynamics. During the Reporting Period, the Group sold 84,838 units of hi-powered and mid-powered tractors, representing a year-on-year increase of 18.1%, among which 47,633 units were hi-powered wheeled tractors, representing a year-on-year increase of 8.4% and maintaining its first position in the industry; and 34,880 units were mid-powered wheeled tractors, representing a year-on-year increase of 38.6% and an increase of 2.2

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

percentage points in market share, becoming the third in the industry. 2,325 units of crawler tractors were sold, representing a year-on-year decrease of 14.9%; and 45,678 units of low-powered wheeled tractors were sold, representing a year-on-year increase of 17.8% and an increase of 1 percentage point in market share, ranking the third in the industry.

In March 2011, the Company established in France a wholly-owned subsidiary, YTO France, which acquired the relevant assets from McC France at a consideration of EUR8,000,000 by way of bidding, representing an important step of the Company towards internationalization. During the Reporting Period, the Company injected a total capital of EUR19,600,000 (equivalent to approximately RMB177,030,000) into YTO France. YTO France will become the manufacturing base, R&D center and sales center of the Company's products in Europe. Upon completion of the said acquisition, the Company dispatched a management team to YTO France and hired locals as senior managers, and proactively facilitated the resumption of production and management integration in YTO France. During the Reporting Period, YTO France produced a total of 611 tractor transmission systems, and achieved sales revenue of EUR10,447,000 (equivalent to approximately RMB92,961,000). However, as it was at its initial stage of integration, the total profit of YTO France still recorded a loss of EUR8,457,000 (equivalent to approximately RMB74,228,000).

During the Reporting Period, the Company acquired the 100% equity interest in YTO International from YTO at a consideration of RMB81,393,000, which was completed in June 2011. Upon completion of the acquisition, YTO International became a wholly-owned subsidiary of the Company. YTO International is principally engaged in the import and export business of tractors, other goods and technologies. The acquisition of YTO International will strengthen the Group's international sales channel and facilitate the development of international markets, thereby speeding up the Company's products export and its steps towards internationalization. During the Reporting Period, the Company exported 3,330 units of tractors through YTO International and China-Africa Machinery Corp. (中非重工投資有限公司) ("**CAMACO**") and its subsidiaries, representing a year-on-year increase of 7%.

During the Reporting Period, in light of the expiration of the term of operation of Luoyang Changlun Agricultural Machinery Co., Ltd (洛陽長侖農業機械有限公司) ("**Changlun Company**"), the controlling subsidiary, and the needs of the Group to consolidate marketing resources, Changlun Company was liquidated and deregistered by the Company. Meanwhile, in order to implement the Group's strategic deployment of its agricultural machineries in Northeastern China and enhance its control over subsidiaries, the Company completed the liquidation of YTO Heilongjiang Modern Agricultural Machinery Co., Ltd, a controlling subsidiary which was registered in Harbin city, Heilongjiang province, and invested RMB50,000,000 to incorporate a wholly-owned subsidiary YTO Heilongjiang Company in Qiqihar city, Heilongjiang province. YTO Heilongjiang Company is principally engaged in the R&D, manufacturing and sale of and relevant services for tractors and agricultural machineries.

During the Reporting Period, operating revenue from the agricultural machinery business amounted to RMB9,356,125,000, representing a year-on-year increase of 14.9%. Operating results amounted to RMB297,660,000, representing a year-on-year increase of RMB40,286,000 or 15.7%.

POWER MACHINERY BUSINESS

During the Reporting Period, the Group, through swiftly seizing market opportunities, continued to deepen the altering and upgrading of product and market structure, consolidated and enhanced its market share in the conventional business of ancillary equipment and stepped up efforts in the market development for supply to hi-powered agricultural machinery. In particular, the Group steadily secured its market share for supply of ancillary equipments to triple-line corn harvesting machines, realized a mass supply to tractors of over 100 horsepower and combined harvesters of 110 horsepower and above and made a breakthrough in 30 loader market. During the Reporting Period, the heavy-duty diesel engine project (Phase 1) of the Group was completed, which successfully passed the acceptance inspection and possessed basic production capacity, and YTO (Jiangyan) Power Machinery Co., Ltd (一拖(薑堰)動力機械有限公司) ("**Jiangyan Power**") was on the track of normal production and operation. In support of the technological renovation of Jiangyan Power, the Company, YTO Diesel and Jiangyan City Industrial Assets Management Co., Ltd (薑堰市工業資產經營有限公司) made a joint capital contribution of RMB30,000,000 to Jiangyan Power in proportion to their respective shareholdings, of which the Company and YTO Diesel contributed RMB11,400,000 and RMB12,000,000 respectively.

During the Reporting Period, 168,896 units of diesel engines in different types were sold in the power machinery business, representing a year-on-year increase of 14.6%, of which 114,536 units were sold to the external customers of the Group, representing a year-on-year increase of 25.9%. The revenue amounted to RMB1,470,155,000, representing a year-on-year increase of 20%. Operating results amounted to RMB191,227,000, representing a year-on-year increase of 6.3%.

OTHER MACHINERY BUSINESS

In order to enhance business synergy and reduce connected transactions, in June 2011, the Company completed the acquisition of the 100% equity interest in YTO Forklift held by YTO, YTO International and its natural person shareholders at a consideration of RMB7,943,000. Upon completion of the said acquisition, YTO Forklift became a wholly-owned subsidiary of the Company. During the Reporting Period, the Group sold 2,677 units of forklifts, representing a year-on-year increase of 34.6%; 605 units of mining trucks, representing a year-on-year increase of 42%; and 1,753 units of agricultural construction machinery, representing a year-on-year decrease of 6.8%.

During the Reporting Period, operating revenue from other machinery business amounted to RMB436,128,000, representing a year-on-year decrease of 49%; and operating results amounted to RMB-6,314,000, representing a year-on-year decrease of RMB42,591,000. Excluding the effects of the four disposed construction machinery subsidiaries and the newly-consolidated YTO Forklift, operating revenue recorded an increase of 37% and operating results basically remained unchanged.

FINANCIAL BUSINESS

Financial business of the Group mainly involves provisions of businesses including internal transfer and settlement, deposit and loan, bills discounting, electronic commercial drafts, 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 member subsidiaries (including the Group and its subsidiaries and non-wholly owned subsidiaries in which the Group holds 20% or more shareholdings). YTO Finance, a non-banking financial institution incorporated with the approval of the People's Bank of China in 1992, is an important platform for internal capital centralisation and enhancing capital utilization efficiency management within the Group.

During the Reporting Period, YTO Finance kept strengthening internal management, actively developed traditional business and vigorously promoted new business such as electronic commercial drafts, striving to provide financial services to the members of the Group to facilitate their production and operation. YTO Finance focused on standardized operation and risk prevention, thus both the ratios of its non-performing assets and non-performing loans remained at zero level, showing good assets quality. During the Reporting Period, operating revenue from the financial business amounted to RMB66,137,000, representing a year-on-year increase of 46.1%, and operating results amounted to RMB53,797,000, representing a year-on-year increase of 45.2%.

ANALYSIS OF FINANCIAL RESULTS

1. Operating revenue

During the Reporting Period, the Group recorded operating revenue of RMB11,328,545,000, representing a year-on-year increase of 10.4%. Of the Group's total operating revenue, agricultural machinery business accounted for 82.6%, representing a year-on-year increase of 3.3 percentage points; power machinery business accounted for 13%, representing a year-on-year increase of 1 percentage point; other machinery business accounted for 3.8%, representing a year-on-year decrease of 4.5 percentage points; and financial business accounted for 0.6%, representing a year-on-year increase of 0.1 percentage point.

2. Gross profit and gross profit margin

During the Reporting Period, gross profit of the Group was RMB1,559,660,000, representing a year-on-year increase of 2.8%. Due to factors such as material price hikes, consolidated gross profit margin of the Group was 13.8%, decreased by 1 percentage point as compared with that of last year. In particular, the gross profit margin of agricultural machinery business, power machinery business and other machinery business decreased by 0.8 percentage point, 1.7 percentage points, and 0.4 percentage point respectively.

3. Other income and gains

During the Reporting Period, the Group recorded other income and gains of RMB75,505,000, decreased by RMB144,296,000 year on year, which was mainly because the Group recorded a total investment income of RMB106,026,000 from the disposal of four construction machinery companies and gains of RMB22,772,000 from the merger of Shanghai Dragon (Group) Co., Ltd (上海強農(集團)有限公司) ("**Shanghai Dragon**") in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

4. Period expenses

During the Reporting Period, the period expenses of the Group amounted to RMB1,099,447,000, representing a year-on-year increase of 0.68%; and the expenses ratio during the period was 9.7%, representing a year-on-year decrease of 0.9 percentage point.

Expenses	**2011** ***RMB'000***	2010 *RMB'000* (Restated)
Selling and distribution costs	**360,144**	368,055
Administrative expenses	**677,204**	645,974
Other expenses	**7,937**	49,829
Finance cost	**54,162**	28,166
Total	**1,099,447**	1,092,024

(1) The Group's selling expenses for the Reporting Period amounted to RMB360,144,000, representing a year-on-year decrease of RMB7,911,000 or 2.15%. Thanks to the strengthened cost control, selling expenses ratio of the Group was 3.2%, representing a year-on-year decrease of 0.4 percentage point.

(2) The Group's administrative expenses for the Reporting Period was RMB677,204,000, representing a year-on-year increase of RMB31,230,000 or 4.83%. Such increase was mainly attributable to the increase of RMB25,952,000 in research and development costs for the purpose of enhancing research and development.

(3) The Group's other expenses for the Reporting Period amounted to RMB7,937,000, representing a year-on-year decrease of RMB41,892,000. Such decrease was mainly because the Group improved the ageing structure of its receivables and enhanced assets management during the year.

(4) The Group's finance cost for the Reporting Period amounted to RMB54,162,000, representing a year-on-year increase of RMB25,996,000 or 92.3%. Under the circumstance of the increase of investment and delayed payment of the State's subsidy on the purchase of agricultural machinery products, in order to ensure normal production and operation, the Group has obtained more bank borrowings during the Reporting Period, which resulted in an increase in its average loan size. The interest rate of bank loans also kept rising during the Reporting Period.

5. Income tax

During the Reporting Period, the Group's income tax expenses amounted to RMB78,537,000, representing a year-on-year decrease of RMB5,556,000. The Company and its controlling subsidiaries, YTO Diesel and Tractors Research Company and its subsidiary, Siyuan Motor were recognized as new and high tech enterprises and enjoyed the preferential income tax rate of 15% from 2008 to 2010. The Company, YTO Diesel and Tractors Research Company and its subsidiary, Siyuan Motor, successfully passed the review for new and high tech enterprise in October 2011, and will continue to enjoy the preferential income tax rate of 15% from 2011 to 2013.

6. Profit

During the Reporting Period, the Group's total net profit was RMB457,505,000 representing a year-on-year decrease of 18.6%, of which net profit attributable to equity holders of the Company amounted to RMB410,819,000, representing a year-on-year decrease of 24.3%. Such decrease in 2011 was attributable to (i) the significant drop in non-recurrent revenue by approximately RMB96,009,000, which decreased from approximately RMB134,368,000 in 2010 generated from the Company's disposal of the equity interests in four construction machinery companies, the merger of Shanghai Dragon and other securities investment, to approximately RMB38,359,000 in 2011 generated from the investment returns; (ii) net profit of a loss of approximately RMB51,945,000 recorded by YTO France as it was at the preliminary stage of business integration and has not achieved a satisfactory level of production; and (iii) the net profit of the four disposed construction machinery companies for 2010 being RMB26,751,000. Excluding the aforesaid factors such as drop of non-recurrent revenue and the effects of YTO France and the four construction machinery companies, net profit attributable to equity holders of the Company recorded an year-on-year increase of 11.2%.

7. Other comprehensive income

During the reporting period, the Group's other comprehensive income amounted to RMB-82,767,000, including: (i) due to stock market downturn,the Group disposed of part of the shares held in order to reduce the investment risk, and the fair value of shares held was decreased by RMB65,947,000; (ii) currency translation differences was RMB-16,820,000, mainly due to the significant fluctuations of Euro, YTO France incurred a translation difference of RMB-10,427,000.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

ASSETS AND LIABILITIES

1. Analysis on assets

As at 31 December 2011, the Group's total assets amounted to RMB9,486,722,000 (31 December 2010: RMB8,617,630,000).

(1) **Non-current assets**: As at 31 December 2011, the Group's total non-current assets amounted to RMB3,117,922,000 (31 December 2010: RMB2,462,507,000). The items which underwent major changes from the same period of last year are as follows:

	31 December 2011 *RMB'000*	31 December 2010 *RMB'000* (Restated)	Increase/ (decrease) *RMB'000*	Percentage of increase/ (decrease) %
Prepaid operating leases	**685,202**	208,385	476,817	228.8%
Intangible assets	**61,631**	—	61,631	—
Available-for-sale financial assets	**179,350**	289,465	-110,115	-38.0%
Deferred income tax assets	**46,667**	38,825	7,842	20.2%

Prepaid operating leases: As at 31 December 2011, prepaid operating leases of the Group increased by RMB476,817,000 over the beginning of the Reporting Period. The increase mainly represents RMB417,460,000 paid by the Company for the acquisition of the land from YTO during the Reporting Period.

Intangible assets: As at 31 December 2011, intangible assets of the Group increased by RMB61,631,000 over the beginning of the Reporting Period. The increase mainly represents the consideration of RMB59,501,000 paid by the Company for the acquisition of trademarks such as "东方红" from YTO during the Reporting Period.

Available-for-sale financial assets: As at 31 December 2011, the available-for-sale financial assets of the Group decreased by RMB110,115,000 over the beginning of the Reporting Period. Such a decrease is mainly because that the Company sold the shares of Daye Special Steel Co., Ltd. during the Reporting Period with the investment gain being included in "OTHER INCOME AND GAINS", which resulted in a reduction of RMB35,021,000 under this accounting item; and that YTO Finance sold the available-for-sale financial assets it held, which resulted in a decrease of RMB45,916,000 under this item.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Deferred income tax assets: As at 31 December 2011, deferred income tax assets of the Group increased by RMB7,842,000, which mainly represents the effect of the provision for deferred income tax assets for the recoverable losses of YTO France.

(2) **Current assets:** As at 31 December 2011, current assets of the Group amounted to RMB6,368,800,000 (31 December 2010: RMB6,155,123,000). The items which underwent major changes from the same period of last year are as follows:

	31 December 2011 *RMB'000*	31 December 2010 *RMB'000* (Restated)	Increase/ decrease *RMB'000*	Percentage of increase/ decrease %
Trade and bill receivables	**2,391,219**	1,555,731	835,488	53.70%
Available-for-sale financial assets	**23,360**	—	23,360	—
Inventories	**1,110,557**	1,376,835	-266,278	-19.3%
Financial assets at fair value through profit or loss	**77,398**	251,994	-174,596	-69.3%

Trade and bill receivables: As at 31 December 2011, bill receivables and trade receivables of the Group amounted to RMB1,538,507,000 and RMB852,712,000 respectively, representing an increase of RMB568,789,000 and RMB266,699,000 respectively over the beginning of the Reporting Period, which was mainly due to the deferred payment of the State's subsidy for purchase of agricultural machinery products.

During the Reporting Period, the turnover of trade receivables was 23 days, which is 3 days slower than that in the corresponding period last year.

Available-for-sale financial assets: As at 31 December 2011, available-for-sale financial assets of the Group increased by RMB23,360,000 over the beginning of the Reporting Period, which is because the 2.75% equity interest (the "**Southwest Equity**") in Southwest Stainless Steel Co., Ltd. (西南不銹鋼有限責任公司) held by the Company in 2010, was offered for sale by the Company through public listing at China Beijing Equity Exchange at the end of 2011. The Southwest Equity was reclassified from Non-current Assets to "Available-for-sale financial assets" under Current Assets.

Inventories: As at 31 December 2011, the inventories of the Group amounted to RMB1,110,557,000, representing a decrease of RMB266,278,000 over the beginning of the Reporting Period, which was mainly because, due to the uncertain movements of raw materials prices and the enhancement of production capacity, the reserve was decreased so as to reduce the capital appropriation and improve the value of capital utilization at the end of year 2011.

During the Reporting Period, the turnover of the inventories was 46 days, which is 4 days faster than that in the corresponding period last year.

Financial assets at fair value through profit or loss: As at 31 December 2011, the Group's financial assets at fair value through profit or loss amounted to RMB77,398,000, representing a decrease of RMB174,596,000 over the beginning of the Reporting Period, which was mainly because YTO Finance sold most of the debentures it held to avoid losses as the stock market declined with volatility.

2. Analysis on liabilities

As at 31 December 2011, the Group's total liabilities amounted to RMB5,711,134,000 (31 December 2010: RMB5,073,602,000). The items which underwent major changes from the same period of last year are as follows:

	31 December 2011	31 December 2010	Increase/ decrease	Percentage of increase/ decrease
	RMB'000	*RMB'000* (Restated)	*RMB'000*	%
Trade and bills payables	**2,193,221**	2,026,864	166,357	8.2%
Bank borrowings	**969,468**	425,726	543,742	127.7%
Placements from banks and non-bank financial institutions	**200,000**	100,000	100,000	100.0%

Trade and bill payables: As at 31 December 2011, the Group's trade payables amounted to RMB1,608,179,000, representing an increase of RMB125,831,000 over the beginning of the Reporting Period, which was mainly due to (i) the increase in purchase of raw materials as a result of the growth of the Group's product sales; and (ii) the negotiated extended payment deadlines with its suppliers by the Company in order to seize market opportunities and to address the challenges posed by the prolonged payment of sale of agricultural machinery. Bill payables amounted to RMB585,042,000, representing an increase of RMB40,526,000 over the beginning of the Reporting Period, which was mainly because the Group used more bills in the tightened credit environment.

Bank borrowings: As at 31 December 2011, the Group's bank borrowings amounted to RMB969,468,000, representing an increase of RMB543,742,000 over the beginning of the Reporting Period. This was mainly because the Group obtained more bank borrowings during the Reporting Period to ensure normal production and operation as a result of the increased investment of the Group and the delayed payment of the State's subsidy for purchase of agricultural machinery products.

Placements from banks and non-bank financial institutions: As at 31 December 2011, the Group had placements from banks and non-bank financial institutions of RMB200,000,000, which represents the capital placed from the accredited members of National Inter-bank Funding Center in an amount of RMB200,000,000 at the end of December 2011 for a term up to 7 days pursuant to previous agreement between YTO Finance and them, mainly in order to meet the capital needs by the Group for production and operation at the end of 2011. In early January 2012, the placements were repaid in full as scheduled.

3. Indicators of financial ratio

Items	Basis of calculation	**31 December 2011**	31 December 2010 (Restated)
Gearing ratio	Total liabilities/ total assets x 100%	**60.2%**	58.9%
Current ratio	Current assets/ current liabilities	**1.19**	1.44
Quick ratio	(Current assets — inventories)/current liabilities	**0.98**	1.12
Debt equity ratio	Total liabilities/shareholders' equity# x 100%	**171.8%**	161.0%

Note: Shareholders' equity excludes minority interests.

As at 31 December 2011, the gearing ratio of the Group increased by 1.3 percentage points to 60.2% as compared with that at the beginning of the year. As a result of the expansion of revenue base, the capital appropriation and liabilities have increased and the the Group's gearing ratio and debt equity ratio have increased and the current ratio and quick ratio have declined.

4. Capital structure

As at 31 December 2011, the total equity of the Group increased by 6.5% year on year to RMB3,775,588,000, of which equity attributable to equity holders of the Company was approximately RMB3,323,500,000, increased by 5.5% year on year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Analysis of equity and reserves

Item	**31 December 2011** *RMB'000*	31 December 2010 *RMB'000* (Restated)	Increase/ (decrease) *RMB'000*
Share capital	**845,900**	845,900	—
Reserve	**2,477,600**	2,238,208	239,392
Proposed final dividend	**—**	67,672	(67,672)
Total	**3,323,500**	3,151,780	171,720

As at 31 December 2011, the Group's reserve amounted to RMB2,477,600,000, representing a year-on-year increase of RMB239,392,000, which was mainly due to the operation accumulation for the year and the effects from events including business combination under common control (acquisition of YTO International, YTO Forklift).

INTERESTS IN ASSOCIATED COMPANIES

During the Reporting Period, the Company's non-wholly owned subsidiary, Tractors Research Company, acquired the 70% equity interest in Luoyang YTO Construction Vehicle Technology Co., Ltd. (洛陽拖汽工程車輛科技有限公司) ("**YTO Construction Vehicle**") held by its natural person shareholders for a consideration of RMB2,800,000. Upon completion of the acquisition, YTO Construction Vehicle became a wholly owned subsidiary of Tractors Research Company. As a result, YTO Construction Vehicle changed from the Company's associated company to the Company's subsidiary.

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

In 2012, the Group intends to invest RMB741,650,000, which will be mainly used for the project on hi-powered diesel engines for agricultural use (Phase 2), construction project on Xinjiang agricultural equipment, project on enhancement of core capability of new-type wheeled tractors, project on product upgrading, capacity expansion and enhancement of the fuel injection system, project on capacity expansion and enhancement of LR diesel engine, project of 100,000-unit light diesel engines (Phase 1), project of forged crankshaft processing line, as well as the project of relocation and technology renovation of machine work of No. 3 Fabricating Factory of the Company and the project on capacity enhancement of cylindrical gear and quality improvement of heat treatment, etc. The said investments will be mainly financed by internal resources of the Group and bank loans.

Some of the aforesaid projects such as the project on hi-powered diesel engines for agricultural use (Phase 2), the construction project on Xinjiang agricultural equipment, the project on enhancement of core capability of new-type wheeled tractors as well as the project on product upgrading, capacity expansion and enhancement of the fuel injection system have been included in the list of projects which will be funded by the proceeds from the Company's issue of A shares. Upon completion of the issue of A shares and receipt of the proceeds, the Company will, subject to relevant regulations, swap the capital that has been injected in such projects after going through relevant procedures.

EXCHANGE RATE RISK

During the Reporting Period, the Group's income and expenditure were principally denominated in Renminbi, and now, after the establishment of YTO France and the acquisition of YTO International, were also partially settled by foreign currencies such as Euro and USD. As such, the fluctuation of exchange rates had certain impact on profit which, however, was not significant. During the Reporting Period, the Group suffered an exchange loss of approximately RMB1,125,000. The Group used foreign currencies mainly for repayment of the US Dollar loan borrowed from HSBC (China) Company Limited Zhengzhou Branch for purchase of imported equipment, repayment of the Euro loan borrowed by YTO France from the Bank of China Paris Branch to meet its production and operation needs, receipts of income in foreign currencies from its international import and export business, payment of commissions to overseas intermediaries and payment of dividends to holders of the H shares of the Company. The Group's cash balances are usually deposited with financial institutions in the form of short-term deposits. Bank loans were mainly borrowed in Renminbi and were repaid out of the revenue received in Renminbi, while those denominated in foreign currencies were repaid in foreign currencies. During the Reporting Period, the Company borrowed USD8,200,000 which was still outstanding as at the date hereof; YTO France borrowed EUR10,000,000 from a bank which has been repaid in Euro.

As at 31 December 2011, there was no pledge of any foreign currency deposit of the Group.

PLEDGE OF ASSETS

As at 31 December 2011, none of the Group's land use rights were pledged (2010: land use rights with the net book value of approximately RMB6,299,000 were pledged by the Group) to secure bank loans granted to the Group.

As at 31 December 2011, the Group's deposits of approximately RMB100,466,000 (2010: approximately RMB133,728,000) were pledged to secure the Group's bills payables of approximately RMB448,122,000 (2010: approximately RMB462,355,000).

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, China Construction Bank Corporation (Henan Branch) and Qilu Bank (the "**Four Banks**") and YTO Finance respectively for the purpose of cooperation in trade facilities. Pursuant to the Trade Credit Agreements, the Four Banks and YTO Finance have agreed to grant to the Company the trade credit lines with a total amount of RMB1,160,300,000 (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 Four Banks and YTO Finance for issuance of the banks' acceptance bills for the purpose of purchasing the Group's products such as agricultural machinery and mining trucks from the Company or its authorized agents. In return, the Company or its authorized agents shall provide guarantees for dealers and customers purchasing products of the Group in the form of an undertaking letter or agreement. As at 31 December 2011, the actual guarantee balance in respect of the Trade Credit Line undertaken by the Company totaled RMB351,720,000.

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 2011.

NUMBER OF STAFF, REMUNERATION POLICY AND STAFF TRAINING

As at 31 December 2011, the Group had a total of 12,296 staff members, of whom 6,614 were production staff, 1,224 were engineering technicians, 243 were financial staff, 1,205 were management staff, 978 were sales and marketing staff, 188 were service staff and 1,844 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 993 various training courses for 28,501 persons.

PROFILES OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhao Yanshui, aged 49, joined YTO 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 YTO Group, the deputy general manager and the executive deputy general manager of the Company and the general manager of YTO. Mr. Zhao served at the Company since 1997 and is currently the chairman 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 Agricultural Machinery 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. In 1994 and 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 46, joined YTO Group in 1989. She was the deputy section chief, section chief, the deputy department head and the head of the Financial Department of YTO Group, 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 YTO, an executive Director of the Company and a member of the Remuneration Committee under the Board of the Company, the Chairman of YTO Group Finance Co., Ltd. and a Director of YTO (Luoyang) Diesel Engine Co., Ltd. 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 47, joined YTO 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 YTO 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 YTO Group, an executive Director of the Company and 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). 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.

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

Mr. Liu Jiguo, aged 48, joined YTO Group in 1987. He served as the deputy factory manager and factory manager of the gear wheel factory, the factory manager of the heat treatment factory, the factory manager of the No. 1 assembly factory (第一裝配廠), the executive deputy general manager and general manager of Agricultural Equipment Division of the Company, the head of the Production and Operation Division of YTO Group and the deputy general manager of the Company. Mr. Liu served at the Company since 2000 and is currently the general manager and an executive Director of the Company and a member of the Strategy & Investment Committee under the Board of the Company, a director of YTO Heilongjiang Agricultural Machinery Co., Ltd.(一拖黑龍江農業裝備有限公司), and the Chairman of China-Africa Machinery Corp.(中非重工投資有限公司). 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.

NON-EXECUTIVE DIRECTORS

Mr. Su Weike, aged 50, was an assistant to general manager, the deputy general manager and general manager of China National Construction & Agricultural Machinery Import & Export Corporation. Mr. Su served at the Company since 2011 and is currently an assistant to general manager of China National Machinery Industry Corporation and a party secretary and the vice chairman of YTO Group, the Vice Chairman, non-executive Director of the Company and a member of the Strategy & Investment Committee under the Board of the Company. Mr. Su has extensive experience in the fields of corporate management and international trading. He studied at Dalian University of Technology majoring in watercraft internal combustion engine and French Business School (法國高等商業學校) and was awarded a bachelor degree and a master degree in engineering and the Executive Master of Business Administration (EMBA). He holds the title of senior engineer with professorship.

Mr. Yan Linjiao, aged 57, joined YTO 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 (一拖(洛陽)柴油機有限公司), the assistant chief engineer and deputy general manager of YTO Group as well as an executive Director and the general manager of the Company, etc. Mr. Yan served at the Company since 2004 and is currently a director and a general manager of YTO 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 and has 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.

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

Mr. Liu Yongle, aged 56, joined YTO 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 YTO Group. He served at the Company since 2009 and is currently the deputy party secretary of YTO Group and a non-executive Director of the Company 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.

Mr. Li Youji, aged 49, joined YTO Group in 1983. He was a designer at the technology center and the deputy head of the No. 2 Assembly Workshop of YTO Group, an assistant to general manager, the deputy general manager and general manager of YTO International Economic and Trading Co., Ltd. (一拖國際經濟貿易有限公司), the deputy general manager of YTO Group, a non-executive Director and deputy general manager of the Company. He served at the Company since 2004. Mr. Li has extensive experience in the fields of marketing and international trading. Mr. Li studied at China Agricultural University in tractor design and manufacture and later Jilin University majoring in agricultural machinery, and was awarded a bachelor degree and master degree in engineering. He holds the title of senior engineer with professorship. From April 2001 to April 2002, he spent a year conducting research at City University, London, United Kingdom as visiting fellow. He holds the title of Senior Engineer. Mr. Li resigned as a non-executive Director of the Company on 29 January 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Sau Shan, Gary, aged 59, 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 served as the chief executive officer of ICEA Securities Limited, a wholly-owned subsidiary of the Bank of East Asia from 2010 to 2011. Mr. Chan has 32 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 of the Company and the Chairman of the Audit Committee and a member of the Remuneration Committee under the Board of the Company.

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

Mr. Luo Xiwen, aged 68, graduated from South China Agricultural University in 1982 with a master degree in agricultural mechanisation where he has been working since his graduation to present. He once served the positions of the dean of Faculty of Agricultural Engineering, the head of Faculty of Engineering Technology at South China Agricultural University and the vice president of South China Agricultural University. He is currently a professor at South China Agricultural University, the mentor of doctorate students, head of the Key Laboratory of Department of Key Technology on Agricultural Machine and Equipment Education, as well as the convener of Agricultural Engineering Division of Bachelor Committee under the State Council, the governor of Chinese Society for Agricultural Machinery, the executive deputy governor of Chinese Society of Agricultural Engineers, 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). He served at the Company since 2006 and is currently an independent non-executive Director of the Company, the Chairman of the Remuneration Committee and the Nomination Committee under the Board of the Company.

Mr. Hong Xianguo, aged 49, 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. From May 2006 to December 2011, he had been the vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers. Since December 2011, he has been the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers. Mr. Hong 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 the research and report in relation to a number of 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 researcher.

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

Mr. Zhang Qiusheng, aged 44, 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 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) of Beijing Jiaotong University and an independent director of Shandong Kingenta Ecological Engineering Co., Ltd. (山東金正大生態工程股份有限公司), Beijing Dinghan Technology Co., Ltd. (北京鼎漢技術股份有限公司) and Tong Oil Tools Co., Ltd. (西安通源石油科技股份有限公司). Mr. Zhang studied at Beijing Jiaotong University from 1983 to 1992 and was awarded bachelor degree 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).

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

SUPERVISORS

Mr. Zheng Luyu, aged 59, joined YTO Group in October 1989 where he held the positions 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 YTO 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 YTO 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.

Ms. Yi Liwen, aged 50, joined YTO Group in 1986 where she served as the deputy section head, section head and office head of the Audit Department of YTO Group and the head of the Audit Department of the Company. She served at the Company since 2009 and is currently the deputy head of the Audit Supervision Department of YTO Group 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 and accomplished the further study courses for graduates majored in accounting of Zhongnan University of Finance and Economics. She holds the qualifications of accountant and certified senior consultant.

Mr. Shao Jianxin, aged 59, joined YTO Group in 1973. 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 served at the Company since 1997 and 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 36, joined YTO 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 YTO Group. He served at the Company since 2010 and currently serves as 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.

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

Mr. Wang Yong, aged 44, 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 Dongtu Law Firm (北京市東土律師事務所). 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 44, 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., a certified accountant with qualification in securities dealing 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 14 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.

COMPANY SECRETARY

Ms. Yu Lina, aged 42, joined YTO Group in 1992. 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 served at the Company since 1997 and is currently the secretary to the Board, a director of YTO (Luoyang) Flag Auto-Body Co., Ltd (一拖(洛陽)福萊格車身有限公司) and YTO (Luoyang) Shentong Construction Machinery Co., Ltd (一拖(洛陽)神通工程機械有限公司). 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 level-2 corporate legal adviser and the title of economist.

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

GENERAL MANAGER

Mr. Liu Jiguo is the general manager of the Company. For his biographical details, please refer to page 30 of this Annual Report.

DEPUTY GENERAL MANAGERS

Ms. Ren Huijuan, aged 54, joined YTO 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 of YTO Group. She served at the Company since 2008 and is currently a staff director and the chairman of the Labour Union of YTO Group and the 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. Lian Guoqing, aged 56, joined YTO Group in 1982. 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 served at the Company since 1997 and is currently the deputy general manager of the Company and a director of YTO (Xinjiang) Machinery Co., Ltd. (一拖(新疆)東方紅裝備機械有限公司董事). 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 majoring in tractor design and manufacture 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 8 meetings (including 4 regular meetings) which are detailed as follows:

(1) At the 19th meeting of the fifth session of the Board held on 18 February 2011 by way of circulating written resolutions for adoption, the resolutions in relation to, among others, the acquisition of certain assets of McC France, application to the Bank of China for grant of credit line, provision of guarantee to YTO France SAS, a wholly-owned subsidiary of the Company, were considered and approved.

(2) At the 20th meeting of the fifth session of the Board (being the 1st regular meeting in 2011) held on 25 March 2011 at the headquarters of the Company in Luoyang city, Henan province, the resolutions in relation to, among others, the Company's 2010 annual report, distribution of dividend for the year 2010, the self-assessment report on internal control in 2010, projects which will be funded by proceeds to be raised from the issue of A shares, acquisition of equity interest in YTO Forklift and capital contribution, acquisition of equity interests in YTO International and deregistration of YTO Heilongjiang Modern Agricultural Machinery Co., Ltd were considered and approved.

(3) At the 21st meeting of the fifth session of the Board held on 18 May 2011 by way of circulating written resolutions for adoption, the resolutions in relation to, among others, the acquisition of certain land and properties assets of YTO by the Company, the acquisition of certain land and properties assets of YTO by YTO Diesel, a subsidiary of the Company, the capital injection by YTO to YTO Injection Pump which is a subsidiary of the Company, adding a new motion into the agenda of the Company's 2010 annual general meeting, the Group's audited financial statements for the first quarter of 2011, self-assessment report on internal control for the first quarter of 2011, and the business cooperation of "Dianpiaotong" (電票通) between the Company and its subsidiary YTO Finance were considered and approved.

REPORT OF THE DIRECTORS *(continued)*

(4) At the 22nd meeting (being the 2nd regular meeting in 2011) of the fifth session of the Board held on 27 June 2011 at the headquarters of the Company in Luoyang city, Henan province, the resolutions in relation to, among others, election of Mr. Su Weike as the Vice Chairman of the Board, appointment and movement of members of the Strategy & Investment Committee of the Board, extension of the valid period of specific mandate for the initial public offering and listing of RMB-dominated ordinary shares (A shares), amendment to the Articles of Association, investment in establishment of a wholly-owned subsidiary named YTO Heilongjiang Company, increase in the Company's total credit line for 2011 as well as commencement of "manufacturer, distributor and bank" (廠商銀) business with Qilu Bank (齊魯銀行) and provision of guarantee thereof were considered and approved.

(5) At the 23rd meeting (being the 3rd regular meeting in 2011) of the fifth session of the Board held on 12 August 2011 at the headquarters of the Company in Luoyang city, Henan province, the resolutions in relation to, among others, the 2011 interim report, acquisition of the registered trademarks "东方红" and "" from YTO and the Company's capital injection in its subsidiary Jiangyan Power were considered and approved.

(6) At the 24th meeting of the fifth session of the Board held on 8 September 2011 by way of circulating written resolutions for adoption, the resolutions in relation to, among others, the Company's audited financial statements for three years and one period (from 2008 to 2010, and the period ended 30 June 2011), the Company's self-assessment report on internal control for the first half of 2011 as well as acquisition of the equity interests held by natural person shareholders of YTO (Luoyang) Shentong Construction Machinery Co., Ltd ("**YLST**") were considered and approved.

(7) At the 25th meeting (being the 4th regular meeting in 2011) of the fifth session of the Board held on 1 December 2011 in Jiangyan city, Jiangsu province, the resolutions in relation to, among others, the Company's trade credit line for 2012, application to The Export-Import Bank of China for grant of a credit line, transfer of the 2.75% equity interest held by the Company in Sichuan Southwest Stainless Steel Co., Ltd, (四川西南不銹鋼有限責任公司) winding-up and deregistration of YTO Shenyang Tractor Co., Ltd, (一拖瀋陽拖拉機有限公司) amendments to the Articles of Association (draft), appointment of Yu Lina as the company secretary and resignation of Ms. Liu Pui Yee as the company secretary were considered and approved.

(8) At the 26th meeting of the fifth session of the Board held on 31 December 2011 by way of circulating written resolution for adoption, the resolution in relation to the provision of external guarantees by the Company in 2012 was considered and approved, which shall be put forward at the general meeting for shareholders' approval.

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 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 2011 and the financial status of the Company and the Group as at 31 December 2011 are set out in the Consolidated Financial Statements on page 76 to page 224 of this Annual Report.

Pursuant to the resolution in relation to the refreshment of specific mandate for the issue of A shares passed at the extraordinary general meeting and the respective class meetings for holders of H shares and domestic shares of the Company convened on 15 August 2011 (details of which were set out in the announcement of results of the extraordinary general meeting, H shares class meeting and domestic shares class meeting of the Company dated 15 August 2011), the Board does not recommend payment of final dividend for the financial year ended 31 December 2011.

4. FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years 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:

REPORT OF THE DIRECTORS *(continued)*

Consolidated results

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)			
Turnover	**11,328,545**	10,265,832	9,004,986	7,933,721	7,102,150
Profit/(loss) before tax	**536,042**	646,142	367,196	90,407	237,804
Tax	**(78,537)**	(84,093)	(85,284)	(9,528)	(40,024)
Current profit/(loss)	**457,505**	562,049	281,912	80,879	197,780
Minority interests	**46,686**	19,379	(33,361)	(12,374)	(16,018)
Net profit/(loss) attributable to equity holders of the parent	**410,819**	542,670	248,551	68,505	181,762

Note: "Restated" is due to the acquisition of equity interests in YTO International and YTO Forklift by the Company in 2011, which constitute business combinations under common control. The relevant figures in respect of the 2010 consolidated results were retrospectively adjusted and restated in accordance with the relevant requirements to consolidate those of YTO International and YTO Forklift.

Consolidated assets, liabilities and minority interests

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)	(Restated)		
Total assets	**9,486,722**	8,617,630	6,187,416	5,625,869	5,488,083
Total liabilities	**(5,711,134)**	(5,073,602)	(3,112,877)	(2,847,090)	(2,735,190)
Minority interests	**(452,008)**	(392,248)	(229,931)	(221,323)	(177,848)
Total equity attributable to equity holders of the parent	**3,323,500**	3,151,780	2,844,608	2,778,779	2,575,045

Note: "Restated" is due to the acquisition of Tractors Research Company by the Company in 2010 and the acquisition of YTO International and YTO Forklift by the Company in 2011, all of which constitute business combinations under common control. The relevant figures in respect of the and 2009 and 2010 consolidated balance sheets were retrospectively adjusted and restated in accordance with the relevant requirements to consolidate those of Tractors Research Company, YTO International and YTO Forklift.

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 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 2011 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. Zhao Yanshui
Ms. Dong Jianhong
Mr. Qu Dawei
Mr. Liu Jiguo (appointed on 17 June 2011)

Non-executive Directors:

Mr. Su Weike (appointed on 17 June 2011)
Mr. Yan Linjiao
Mr. Liu Yongle
Mr. Li Youji (appointed on 17 June 2011 and resigned on 29 January 2012)

Independent non-executive Directors:

Mr. Chan Sau Shan, Gary
Mr. Luo Xiwen
Mr. Hong Xianguo
Mr. Zhang Qiusheng

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. Shao Jianxin (staff representative Supervisor)
Mr. Wang Jianjun (staff representative Supervisor)

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

Each of the Directors and Supervisors of the Company has entered into a service contract with the Company for a term of not more than three years ending on 30 June 2012. In case of any party wishing to terminate the service contract during the term, a prior written notice should be given to another party.

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.

As Mr. Li Xibin resigned 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).

As Mr. Shao Haichen resigned 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).

As Mr. Li Youji resigned as a non-executive Director on 29 January 2012, the service contract entered into between him and the Company on 17 June 2011 was terminated on the date of his resignation (i.e. 29 January 2012).

Details of the remunerations of the Directors and Supervisors are set out in Note 9 to the Consolidated Financial Statements in this Annual Report.

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. Mr. Su Weike and Mr. Li Youji agreed to waive their directors' remuneration in August and September 2011, respectively. Save as the aforesaid, there was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Reporting Period.

12. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL 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, 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.

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 was 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

As at 31 December 2011, 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**").

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.

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 2011, 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 China National Machinery Industry Corporation (中國機械工業集團有限公司) ("**Sinomach**") (the controlling shareholder of YTO). As at 31 December 2011, 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 Share of the Company
JPMorgan Chase & Co.	Investment manager	Long position	35,909,313	8.93%
Neuberger Berman Group LLC	Interests of controlled corporations	Long position	32,311,200	8.04%
GE Asset Management Incorporated	Investment manager	Long position	31,957,518	7.95%
The Capital Group Companies, Inc.	Investment manager	Long position	24,718,000	6.15%
UBS AG	Investment manager	Long position	17,046,000	5.09%

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 35,865,313 H Shares of the Company. JPMorgan Chase & Co. also holds 44,000 H Shares of the Company through its controlled corporations, totalling 35,909,313 H Shares, of which 35,865,313 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. 32,311,200 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 2011, 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 disclosable connected transactions which were not disclosed during the Reporting Period. Details of the Group's connected transactions are set out in Note 49 to the Consolidated Financial Statements in this Annual Report.

(1) One-off connected transactions

Connected transactions exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules

(a) Acquisition of 100% equity interest in YTO International

On 18 May 2011, the Company entered into the YTO International Agreement with YTO to acquire 100% equity interest in YTO International held by YTO at the appraised value of RMB79,981,000. According to the audit results of profit and loss during the period from the valuation reference date to the completion date of transfer of the equity interest, the final consideration for the equity transfer was RMB81,393,000. Relevant details were set out in the announcement of the Company dated 18 May 2011.

(b) Acquisition of 100% equity interest in YTO Forklift

On 18 May 2011, the Company entered into the YTO Forklift Agreements with YTO, YTO International and the natural person investors of YTO Forklift to acquire the 100% equity interest in YTO Forklift at the appraised value of RMB10,185,000. According to the audit results of profit and loss during the period from the valuation reference date to the completion date of transfer of the equity interest, the final consideration for the equity transfer was RMB7,943,000. Relevant details were set out in the announcement of the Company dated 18 May 2011.

REPORT OF THE DIRECTORS *(continued)*

(c) Acquisition of registered trademarks "东方红" and ""

In order to strengthen the legal stability towards the related interests enjoyed by the Company (being the owner) over the registered trademarks, enhance the Company's assets comprehensiveness, and enable the Company to make full use of the influence and rallying point of the registered trademarks in the market and thereby further encourage its market expansion, the Company and YTO entered into the Trademarks Transfer Agreement on 15 August 2011, pursuant to which the Company agreed to purchase from YTO 13 registered trademarks used on various products at a total consideration of RMB59,501,000 and 32 trademarks at nil consideration. Relevant details were set out in the announcement of the Company dated 15 August 2011.

Connected transactions which were not exempt from the independent shareholders' approval requirement under Rule 14A.17 of the Listing Rules

(d) Acquisition of certain assets of YTO by the Company and capital contribution to YTO Injection Pump by YTO

In order to solve the Group's issue that the titles of the buildings and the underlying land use rights belong to different parties as well as to turn the Company's relevant productive factors more comprehensive, thereby enhancing the independence of the Company's assets while reducing connected transactions between the Group and YTO, the Company and its subsidiary YTO Diesel entered into Assets Transfer Agreements with YTO on 18 May 2011 to purchase certain land and relevant buildings originally leased to the Company by YTO at a consideration of RMB404,800,000 and RMB44,070,000 respectively. On the same day, the Company entered into the Capital Increase Agreement with YTO, YTO Diesel, YTO Injection Pump, being a subsidiary of the Company, and its natural person shareholders, pursuant to which YTO made capital contribution to YTO Injection Pump by injecting the land and relevant buildings with appraised value of approximately RMB26,000,000. The above-mentioned considerations for the land use rights and buildings were determined with reference to their respective appraised value prepared by Renda Real Estate Appraisal Co. Ltd* (北京仁達房地產評估有限公司) ("**Renda Company**"), and the consideration for the capital increase in YTO Injection Pump was determined with reference to the appraised value prepared by Beijing China Enterprise Appraisals Company, Inc.* (北京中企華資產評估有限責任公司) ("**China Appraisals Company**"). Both Renda Company and China Appraisals Company are PRC qualified valuers.

The abovementioned transactions respectively constitute a connected transaction of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, details of which are set out in the Company's announcement headed "Connected and Discloseable Transactions — Acquisitions of the Lands and Buildings" dated 18 May 2011 and circular headed "Connected and Discloseable Transactions — Acquisitions of the Lands and Buildings" dated 26 May 2011. Such transactions were approved by independent shareholders at the annual general meeting of the Company held on 17 June 2011.

(2) Continuing connected transactions

Continuing connected transactions which were not exempt from the reporting, announcement independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules

(a) The Company and YTO, the controlling shareholder of the Company, entered into four continuing connected transaction agreements on 21 October 2009, namely the First Tractor Supply Agreement, YTO Supply Agreement, YTO Composite Services Agreement and YTO Energy Supply Services Agreement (collectively, the "**Four Agreements**"), each for a term commencing from 1 January 2010 to 31 December 2012. 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. Relevant details were set out in the announcement and circular of the Company dated 21 October 2009 and 6 November 2009 respectively.

The respective cap amounts and transaction amounts of the abovementioned continuing connected transactions for the year ended 31 December 2011 are as follows:

	For the year ended 31 December 2011	
Name	**Cap amounts**	**Transaction amounts**
	RMB'000	*RMB'000*
First Tractor Supply Agreement	1,440,000	342,632
YTO Supply Agreement	1,600,000	1,262,965
YTO Composite Services Agreement	120,000	107,125
YTO Energy Supply Services Agreement	240,000	112,997

(b) YTO Finance, a non-wholly owned subsidiary of the Company, and YTO entered into the Loan Agreement, Bills Acceptance Agreement and Bills Discounting Agreement (collectively, the "**Financial Services Agreements**") on 28 June 2010 with a term commencing from 16 August 2010 to 31 December 2012. The Financial Services Agreements and their respective cap amounts were approved by the independent shareholders at the extraordinary general meeting of the Company held on 16 August 2010. Relevant details were set out in the announcement and circular of the Company dated 28 June 2010 and 20 July 2010, respectively.

The respective cap amounts and maximum outstanding amounts of the Financial Services Agreements for the year ended 31 December 2011 are as follows:

	For the year ended 31 December 2011	
Name	**Cap amounts**	**Maximum outstanding amounts**
	RMB'000	*RMB'000*
Loan Agreement	510,000	507,020
Bills Acceptance Agreement	300,000	283,908
Bills Discounting Agreement	350,000	330,000

Connected transactions exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules

(c) The Company and YTO entered into three continuing connected transaction agreements on 21 October 2009, namely the First Tractor Properties Lease Agreement, YTO Properties Lease Agreement and YTO Land Lease Agreement (collectively, the "**Three Agreements**"), each for a term commencing from 1 January 2010 to 31 December 2012. Relevant details were set out in the announcement of the Company dated 21 October 2009.

The Company and YTO entered into the Supplemental Agreement to the YTO Land Lease Agreement (the "**Supplemental Agreement**") on 28 June 2010 to stipulate the pre-emptive rights of the Company in lease renewal and transfer of the land. Relevant details were set out in the announcement of the Company dated 28 June 2010.

During the Reporting Period, in order to further enhance the Company's business independence and assets comprehensiveness, as approved by shareholders at the annual general meeting of the Company held on 17 June 2011, the Company and YTO Diesel respectively purchased the lands and buildings owned by YTO at considerations which were determined on the basis of respective appraised values. Meanwhile, YTO made capital contribution to YTO Injection Pump by injecting the land and relevant building (details of which are set out in section 19 (1) headed "One-off connected transactions" in this Annual Report). Upon completion of transfer of such lands and buildings, the YTO Properties Lease Agreement entered into between the Company and YTO was terminated on 22 July 2011, and the YTO Land Lease Agreement and the Supplemental Agreement were terminated on 12 August 2011.

The respective cap amounts and transaction amounts of the abovementioned continuing connected transactions for the year ended 31 December 2011 (the period prior to the completion of transfer of the lands and buildings) are as follows:

	For the year ended 31 December 2011	
		Transaction
Name	**Cap amounts**	**amounts**
	RMB'000	*RMB'000*
First Tractor Properties Lease Agreement	10,000	4,927
YTO Properties Lease Agreement *(Note)*	7,000	4,457
YTO Land Lease Agreement *(Note)*	24,000	12,351

Note: The YTO Properties Lease Agreement and the YTO Land Lease Agreement were terminated on 22 July 2011 and 12 August 2011 respectively.

(d) On 21 December 2010, Tractors Research Company, a subsidiary of the Company, entered into the First Tractor Technology Services Agreement and the YTO Technology Services Agreement with the Company (for itself and on behalf of its subsidiaries other than Tractors Research Company) and YTO (for itself and on behalf of its subsidiaries other than the Group), respectively, both for a term from 21 December 2010 to 31 December 2012. Relevant details were set out in the announcement of the Company dated 21 December 2010.

REPORT OF THE DIRECTORS *(continued)*

The respective cap amounts and transaction amounts of the First Tractor Technology Services Agreement and YTO Technology Services Agreement for the year ended 31 December 2011 are as follows:

	For the year ended 31 December 2011	
		Transaction
Name	**Cap amounts**	**amounts**
	RMB'000	*RMB'000*
First Tractor Technology Services Agreement	150,000	115,256
YTO Technology Services Agreement	10,000	9,850

(e) On 15 August 2011, the Company and YTO entered into the Trademarks Transfer Agreement in relation to the transfer of the registered trademarks such as "东方红" and "" ("**Registered Trademarks**"), details of which are set out in section 19(1) headed "One-off connected transactions" in the Report of the Directors. Upon the Trademarks Transfer Agreement coming into effect, the Trademark Licence Agreement with a term of 30 years and the New Trademark Licence Agreement (the "**New Trademark Licence Agreement**") for a term expiring on 31 December 2012 which were entered into between the Company and YTO on 6 June 1997 and 21 December 2010 respectively, were terminated in September 2011.

The cap amount and transaction amount of the Trademark Licence Agreement for the year ended 31 December 2011 are as follows:

	For the year ended 31 December 2011	
		Transaction
Name	**Cap amounts**	**amounts**
	RMB'000	*RMB'000*
Trademark Licence Agreement[1]	261,752	15,548[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 2011, the net tangible assets of the Group amounted to RMB8,725,067,000.

2. It includes the transaction amounts of the Trademark Licence Agreement and the New Trademark Licence Agreement. For the year ended 31 December 2011, the transaction amount of the New Trademark Licence Agreement amounted to RMB0.

Confirmation by independent non-executive Directors

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

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

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

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

Confirmation by auditors

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

(a) had obtained the approval of the Board;

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

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

Confirmation by Directors

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

20. SIGNIFICANT EVENTS

(1) On 27 June 2011, the Board passed the resolution on extension of the valid period of specific mandate for the initial public offering and listing of RMB-dominated ordinary shares (A Shares) to apply for the issue and listing of not more than 150,000,000 ordinary shares (A shares) within the valid period, which was approved by the shareholders at the Company's second extraordinary general meeting for 2011 and the respective 2011 first class meetings for holders of domestic shares and H Shares held on 15 August 2011. The A Share Issue has passed the examination by the Public Offering Review Committee of the CSRC on 11 January 2012, pending the issurance of official approval documents by CSRC.

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

(a) On 25 March 2011, Mr. Li Xibin resigned as an executive Director and Deputy General Manager of the Company and Mr. Jin Yang resigned as the Deputy General Manager of the Company.

(b) On 17 June 2011, at the 2010 annual general meeting of the Company, Mr. Su Weike, Mr. Li Youji and Mr. Liu Jiguo were elected as Directors of the Company with a term of office from 17 June 2011 to 30 June 2012.

(c) On 27 June 2011, at the 22nd meeting of the fifth session of the Board, the Board approved the election of Mr. Su Weike as the Vice Chairman of the Board, the appointment of Mr. Su Weike and Mr. Liu Jiguo as members of the Strategy & Investment Committee and the termination of appointment of Mr. Qu Dawei as a member of the Strategy & Investment Committee.

(d) On 1 December 2011, at the 25th meeting of the fifth session of the Board, Ms. Yu Lina was appointed as the company secretary of the Company. Ms. Liu Pui Yee no longer served as the joint company secretary (Ms. Liu Pui Yee resigned as the joint company secretary of the Company on 1 December 2011). Details were set out in the announcement of the Company dated 1 December 2011.

(3) In December 2011, the Company's Dongfanghong hi-powered wheeled tractor product won the bid for the "Project of Government Procurement of Tractors as Prizes for Outstanding Grain Production and Sale Households 2011", which was the only type of vehicle prize which won the bid at the conference. The successful bidding will increase the influence of the Group's hi-powered wheeled tractors in the domestic market and further strengthen the brand image of Dongfanghong among its users.

(4) During the Reporting Period, the Company and its subsidiaries, Tractors Research Company and YTO Diesel, passed the 2011 annual review for new and high tech enterprise of Henan Province, the PRC and were accordingly entitled to enjoy the 15% preferential income tax rate for another term of three years.

(5) During the Reporting Period, none of the Company, 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 in Appendix 14 to the Listing Rules during the Reporting Period.

22. AUDITORS

Pursuant to the requirements of centralized management promulgated by the State-owned Assets Supervision and Administration Commission of the State Council, on 22 December 2009, it was approved at the extraordinary general meeting of the Company that the international and PRC auditors of the Company for the year 2009 was changed from Ernst & Young and Ernst & Young Hua Ming to UHY Vocation HK CPA Limited ("**UHY Hong Kong**") and Vocation International Certified Public Accountants Company Limited ("**VICPA**") respectively (Details of which were set out in the announcement of the Company dated 21 October 2009).

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.

On 28 January 2011, it was approved at the extraordinary general meeting of the Company that the international auditor of the Company for the year 2010 was changed from UHY Hong Kong to Baker Tilly Hong Kong Limited ("**Baker Tilly Hong Kong**") due to the merger of UHY Hong Kong with Baker Tilly Hong Kong (Details of which were set out in the announcement of the Company dated 10 December 2010). In 2011, VICPA has changed its English name to Baker Tilly China.

On 17 June 2011, the 2010 annual general meeting of the Company approved the appointment of Baker Tilly Hong Kong and Baker Tilly China as the international and PRC auditors of the Company respectively for the year 2011 and the Board was authorized to determine their remunerations.

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
24 February 2012

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, including executive Director Mr. Zhao Yanshui(Chairman) and non-executive Director Mr. Su Weike (Vice Chairman); three executive Directors, namely, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Liu Jiguo; three non-executive Directors, namely Mr. Yan Linjiao, Mr. Liu Yongle and Mr. Li Youji; and four independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng. Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Liu Yongle, Ms. Dong Jianhong, Mr. Qu Dawei, Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo have served as executive/ non-executive/independent non-executive Directors of the Company since 1 July 2009 respectively. Mr. Zhang Qiusheng has served as as an independent non-executive Director of the Company since 16 August 2010; Mr. Liu Jiguo, Mr. Su Weike and Mr. Li Youji have served as executive/non-executive Directors of the Company since 17 June 2011 respectively. Mr. Li Youji resigned as a non-executive Director of the Company on 29 January 2012. The biographical details of each of the Directors are set out on page 29 to page 33 of this Annual Report.

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.

CORPORATE GOVERNANCE REPORT *(continued)*

During the Reporting Period, the fifth session of the Board convened a total of 8 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 *(executive Director)*	Mr. Zhao Yanshui	8/8
Vice Chairman *(non-executive Director)*	Mr. Su Weike (appointed on 17 June 2011)	5/5
Executive Directors	Ms. Dong Jianhong	8/8
	Mr. Qu Dawei	8/8
	Mr. Liu Jiguo (appointed on 17 June 2011)	5/5
Non-executive Directors	Mr. Yan Linjiao	8/8
	Mr. Liu Yongle	8/8
	Mr. Li Youji (appointed on 17 June 2011)	3/5
Independent non-executive Directors	Mr. Luo Xiwen	8/8
	Mr. Chan Sau Shan, Gary	4/8
	Mr. Hong Xianguo	8/8
	Mr. Zhang Qiusheng	7/8

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, meeting minutes, operation performance and business progress.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Zhao Yanshui and Mr. Liu Jiguo act as the Chairman of the Board and the General Manager of the Company respectively.

The biographical details of the Chairman of the Board and the General Manager of the Company are set out on page 29 and page 36 of this Annual Report respectively.

The powers and responsibilities of the Board and the management are clearly specified in the Articles of Association of the Company, which provides a sufficient check and balance for good corporate governance and internal controls.

The Board is responsible for deciding business and investment plans, formulating the basic management system, determining the establishment of the internal management divisions, making resolutions on other material business and administrative matters and monitoring the performance of the management.

The management of the Company, leading by the General Manager (who is also an executive Director), is responsible for implementing all the resolutions made by the Board and arranging for the Company's day-to-day operation management.

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 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 30 June 2012. The terms of office of the independent non-executive Director Mr. Zhang Qiusheng and the non-executive Director Mr. Su Weike commenced from 16 August 2010 and 17 June 2011 respectively to 30 June 2012. The term of office of the non-executive Director Mr. Li Youji is from 17 June 2011 to 29 January 2012, the day on which he resigned as the non-executive Director of the Company.

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

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 has set up the Nomination Committee with majority members being independent non-executive Directors. The Nomination Committee comprises 3 Directors, with Mr. Luo Xiwen (independent non-executive Director) serving as the chairman, Mr. Hong Xianguo (independent non-executive Director) and Mr. Zhao Yanshui (Chairman of the Board 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 3% or more (including 3%) 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 Directors of the Company and nominated Mr. Su Weike, Mr. Li Youji and Mr. Liu Jiguo as the Directors of the Company. All members of the Nomination Committee attended the meeting.

AUDITORS' REMUNERATION

During the Reporting Period, Baker Tilly Hong Kong and Baker Tilly China worked as the international and PRC auditors of the Group respectively and undertook the audit of the Group's financial statements for the year ended 31 December 2010 and for the first half year ended 30 June 2011 in accordance with the Hong Kong Financial Reporting Standards and PRC Accounting Standards.

Baker Tilly Hong Kong and Baker Tilly China charged the auditors' remuneration of RMB2,979,000 for the audit fee for the year 2010 and the fees for preparing the financial statements of the Group for the first half year ended 30 June 2011.

During the Reporting Period, Baker Tilly Hong Kong provided non-auditing services in relation to the profit tax return for the Company for a remuneration of HK$9,000. The Board considered the provision of services in relation to the profit tax return by Baker Tilly Hong Kong does not affect the independence of Baker Tilly Hong Kong and Baker Tilly China.

AUDIT COMMITTEE

As required under the Listing Rules, the Company has set up the Audit Committee with majority members being independent non-executive Directors. The Audit Committee consists of 3 Directors, 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 2 meetings with the General Manager, the financial controller and the external auditors of the Company, at which the Group's 2010 financial report, 2011 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.

CORPORATE GOVERNANCE REPORT *(continued)*

Attendance of members of the Audit Committee is as follows:

Position	Name of Directors	Number of attendance/ number of possible attendance
Chairman	Mr. Chan Sau Shan, Gary	2/2
Members	Mr. Yan Linjiao	2/2
	Mr. Zhang Qiusheng	2/2

The Audit Committee has reviewed the 2011 annual financial report of the Group.

STRATEGY & INVESTMENT COMMITTEE

Pursuant to the requirement of the Listing Rules, the Company set up the Strategy & Investment Committee. The Strategy & Investment Committee consists of 5 Directors, with Mr. Zhao Yanshui (Chairman of the Board and executive Director) serving as the chairman, Mr. Su Weike (Vice Chairman of the Board and non-executive Director) Mr. Yan Linjiao (non-executive Director), Mr. Liu Jiguo (General Manger and executive Director) and Mr. Zhang Qiusheng (independent non-executive Director) as members. 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.

The Board, having reviewed the internal monitoring and control systems of the Company and its subsidiaries during the Reporting Period, is of the opinion that the internal control system of the Company was effectively implemented during the Reporting Period which can ensure the achievement of the objectives of the internal control. In particular, the Company had in place complete production, operation and management departments with distinct power and responsibilities to achieve synergy and balance; a human resources management and incentive system was established and improved; a better asset management system was set up; certain control measures were taken for all the key control points of research and development, procurement, sales and production; and the financial reporting system was sound and the information was true and complete. Furthermore, thanks to the timely and effective crosschecking within the system itself, the internal control system can be continuously revised and improved along with the development of the business, providing a solid foundation for the steady growth of the Company. The Board is satisfied with the overall performance of the internal control. The Audit Committee has been performing its duties and responsibilities, and has reviewed and discussed the internal monitoring and control system of the Company.

The Company commissioned Baker Tilly China to verify the self-assessment report of the Company on the effectiveness of the internal control in 2011 according to the "Basic Standards for Internal Control of Enterprises" issued by the Ministry of Finance and relevant standards. Baker Tilly China stated in its "Internal Control Audit Report" that the Company maintained effective internal control in all material aspects as at 31 December 2011 pursuant to the "Basic Standards for Internal Control of Enterprises", "Application Guidelines for Internal Control of Enterprises" and relevant standards.

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.

Holders of ordinary shares of the Company have the right to access the corporate information and documents as stipulated in the Articles of Association. The Board of the Company appoints the secretary to the Board who shall, as part of the primary duties, ensure that the Company keeps complete constitutional documents and records and that persons entitled to access the relevant records and document of the Company obtain the same on a timely basis.

The Board has been committed to maintain effective communications with shareholders of the Company. The Company encourages its shareholders to contact the Secretary to the Board as and when they think necessary. 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. At the extraordinary general meeting of the Company held on 28 January 2011, it was considered and approved 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.

2. At the 2010 annual general meeting held on 17 June 2011, the following matters were considered and approved: the work report of the Board for the year 2010, the work report of the Board of Supervisors for the year 2010, the audited financial report for the year 2010, the dividend distribution proposal for the year 2010, the appointment of the Company's international and PRC auditors for the year 2011 and the granting of authorization to the Board to determine their remunerations, the appointment of additional Directors to the Board, the acquisition of assets such as lands and buildings, the capital injection in the Company's subsidiaries, the granting of authorization to the Board to determine matters related to investment, the granting of authorization to the Board to handle matters in connection with the placement or issue of domestic shares and overseas listed foreign shares of the Company and the granting of authorization to the Board to distributed the interim dividend for the half year ended 30 June 2011 to the shareholders of the Company.

3. At the extraordinary general meeting held on 15 August 2011, the resolution on extension of the valid period of specific mandate for the initial public offering and listing of RMB-denominated ordinary shares (A Shares) and the resolution on amendments to the Articles of Association were considered and approved.

4. At the class meeting for holders of H Shares and the class meeting for holders of domestic shares held on 15 August 2011, the resolution on extension of the valid period of specific mandate for the initial public offering and listing of RMB-denominated ordinary shares (A Shares) was respectively 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 reflect the change in the scope of business after the Company's disposal of the construction machinery business and related assets, at the request of the Board, the Company convened the 2011 second extraordinary general meeting on 15 August 2011, at which the amendments to the the Articles of Association in respect of the "scope of business" were considered and approved and products such as road rollers, bulldozers, loaders and excavators were deleted. 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 45 to page 47 of this Annual Report. The market capitalization of the public float of the Company reached HK$2,922,467,300 as at 31 December 2011.

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
24 February 2012

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, pursuant to the regulations set out in the Company Law of the PRC (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 2011

1. During the Reporting Period, the Board of Supervisors convened 2 meetings in accordance with the requirements of the Company Law and the Articles of Association.

    (1) The 6th meeting of the fifth session of the Board of Supervisors was convened on 22 March 2011 at the Company's headquarter, at which 5 of 6 eligible Supervisors were present and the following resolutions were considered and approved:

    i) approval of the report of the Board of Supervisors of the Company for the year 2010;

    ii) review of the financial statements of the Company for the year 2010;

    iii) review of the distribution proposal of the Company in respect of the profit for the year 2010.

    (2) The 7th meeting of the fifth session of the Board of Supervisors was convened on 12 August 2011 at the Company's headquarter, at which 6 of 6 eligible Supervisors were present and the 2011 interim financial statements of the Company and the 2011 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.

INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS OF THE COMPANY FOR THE YEAR 2011

1. During the Reporting Period, the Board of Supervisors, in accordance with the duties entrusted by the Company Law and the Articles of Association, supervised and reviewed the operation of the Company. The Board of Supervisors considered that: the Board of the Company has strictly abided to the requirement of the Company Law, the Articles of Association and other relevant legal regulations and rules, operate according to the law, and strictly enforced the resolutions of the general meetings. The procedures of making operation decisions of the Company have compiled with the law, the disclosure of information is in time and accurate. The Directors and General Manager of the Company performed their duties in a diligent and disciplined manner and devoted to their duties. The Board of Supervisors did not receive any report of or discover any violation of the laws, regulations or the Articles of Association or behaviours that infringed the interests of the shareholders or 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 2011 interim financial statements, 2011 financial statements, 2011 interim dividend distribution proposal and the proposal for profit distribution of 2011. 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 2011 which have been audited by Baker Tilly Hong Kong and Baker Tilly China, give a true and fair view of the operating results and assets of the Group for this financial year.

In 2012, 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
23 February 2012

SUPPLEMENTARY INFORMATION

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

FINANCIAL BUSINESS

During the Reporting Period, all the Group's financial businesses were conducted in the PRC. The Group's financial businesses are primarily undertaken by YTO Finance, a controlling subsidiary of the Company. The principal financial businesses of YTO Finance include assistance to member companies (YTO and its member companies) in payment and receipt of transaction proceeds; dealing with entrusted loans and entrusted investments among its group companies; provision of bills acceptance and discounting services to its member companies; provision of intra-group transfer and settlement services to its member companies; provision of deposit services to its member companies; provision of loans to its member companies; provision of 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. YTO Finance also established the Compliance Department to manage its corporate system and risk resistance and control of YTO Finance.

KEY RISK MANAGEMENT

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

Market risk

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

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

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

Liquidity risk

Liquidity risk (also known as payment risk) is the risk that a company is unable to finance for reducing 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 strictly followed established rules and business procedures, regularly convened meetings of the Assets-Liabilities Committee, supervised and controlled liquidity and ensured that the level of liquidity ratio is not less than 25%.

Compliance risk

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

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

SUPPLEMENTARY INFORMATION *(continued)*

During the Reporting Period, YTO Finance received acclaims and acknowledgement from China Banking Regulatory Commission (Luoyang Branch) ("**CBRC Luoyang Branch**") during its special inspection on the finance leasing business and on-site inspection on risk rating of YTO Finance, and from Luoyang Central Branch of the People's Bank of China during its on-site inspection on the implementation of deposit reserve requirement. According to the opinion of CBRC Luoyang Branch issued in September 2011, the established rules and regulation of YTO Finance are able to ensure a lawful and compliant business operation. Risk prevention and control work was conducted in an orderly manner and the businesses grew steadily.

As at 31 December 2011, YTO Finance's capital adequacy ratio was 28.04%; statutory reserve deposits ratio was 16%; liquidity ratio was 68.36%; self-owned fixed assets investment ratio was 0.63%; investment ratio was 26.51%; non-performing loan ratio was 0; and distressed assets ratio was 0. All the above ratios were in compliance with the requirements of regulations and supervision of China Banking Regulatory Commission.

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
2nd Floor, 625 King's Road
North Point, Hong Kong
香港北角英皇道625號2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 75 to 224, which comprise the consolidated and company's statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements 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 2011, 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, 24 February 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Revenue	6	**11,328,545**	10,265,832
Cost of sales		**(9,768,885)**	(8,748,714)
Gross profit		**1,559,660**	1,517,118
Other income and gains	6	**75,505**	219,801
Selling and distribution costs		**(360,144)**	(368,055)
Administrative expenses		**(677,204)**	(645,974)
Other operating expenses, net		**(7,937)**	(49,829)
Finance costs	8	**(54,162)**	(28,166)
Share of profits of associates		**324**	1,247
Profit before income tax	7	**536,042**	646,142
Income tax expense	11	**(78,537)**	(84,093)
Profit for the year		**457,505**	562,049
Profit attributable to:			
Owners of the Company	12	**410,819**	542,670
Non-controlling interests		**46,686**	19,379
		457,505	562,049
Dividends	13	**—**	169,180
Earnings per share attributable to owners of the Company			
Basic and diluted earnings per share	14	**RMB48.57 cents**	RMB64.15 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000 (Restated)
Profit for the year	**457,505**	562,049
Other comprehensive (expense)/income:		
Currency translation differences	**(16,820)**	(1,125)
Fair value loss on available-for-sale financial assets, net of tax	**(65,947)**	(6,296)
Recognition of deferred income	**—**	7,990
Other comprehensive (expense)/income for the year, net of tax	**(82,767)**	569
Total comprehensive income for the year	**374,738**	562,618
Attributable to:		
Owners of the Company	**332,650**	542,342
Non-controlling interests	**42,088**	20,276
Total comprehensive income for the year	**374,738**	562,618

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	15	**2,063,595**	1,830,551	1,238,691
Investment properties	16	**33,861**	35,302	—
Prepaid operating leases	17	**685,202**	208,385	95,445
Intangible assets	18	**61,631**	—	—
Interests in associates	20	**13,314**	15,121	14,281
Available-for-sale financial assets	21	**179,350**	289,465	168,476
Loan receivables	22	**34,302**	44,858	135,278
Deferred income tax assets	39	**46,667**	38,825	59,376
Total non-current assets		**3,117,922**	2,462,507	1,711,547
Current assets				
Inventories	23	**1,110,557**	1,376,835	1,060,047
Trade and bill receivables	24	**2,391,219**	1,555,731	951,108
Available-for-sale financial assets	21	**23,360**	—	—
Loan receivables	22	**671,423**	503,231	412,123
Prepayments, deposits and other receivables	25	**572,302**	751,097	750,225
Tax recoverable		**10,116**	2,672	2,118
Financial assets at fair value through profit or loss	26	**77,398**	251,994	28,942
Held-to-maturity financial assets	27	**—**	1,000	11,140
Placements with banks and non-bank financial institutions	28	**—**	350,000	—
Pledged bank deposits	29	**123,334**	179,728	310,321
Cash and cash equivalents	29	**1,389,091**	1,182,835	949,845
Total current assets		**6,368,800**	6,155,123	4,475,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Current liabilities				
Trade and bill payables	30	**2,193,221**	2,026,864	1,730,426
Other payables and accruals	31	**793,435**	970,679	634,387
Customer deposits	32	**1,112,774**	540,420	260,223
Repurchase agreements	33	**—**	99,500	—
Placements from banks and non-bank financial institutions	34	**200,000**	100,000	—
Borrowings	35	**969,468**	425,726	156,000
Current income tax liabilities		**42,535**	29,850	62,970
Provisions	36	**43,839**	69,405	36,369
Total current liabilities		**5,355,272**	4,262,444	2,880,375
Net current assets		**1,013,528**	1,892,679	1,595,494
Total assets less current liabilities		**4,131,450**	4,355,186	3,307,041
Non-current liabilities				
Borrowings	35	**186,000**	600,000	13,473
Deferred income	37	**111,728**	106,748	115,597
Deferred income tax liabilities	38	**15,130**	27,062	13,109
Provisions	36	**43,004**	77,348	90,323
Total non-current liabilities		**355,862**	811,158	232,502
Net assets		**3,775,588**	3,544,028	3,074,539

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Equity				
Attributable to owners of the Company				
Share capital	39	**845,900**	845,900	845,900
Reserves	40(a)	**2,477,600**	2,238,208	1,897,200
Proposed final dividend	13	**—**	67,672	101,508
		3,323,500	3,151,780	2,844,608
Non-controlling interests		**452,088**	392,248	229,931
Total equity		**3,775,588**	3,544,028	3,074,539

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

Approved by the board of directors on 24 February 2012.

Zhao Yanshui
Director

Liu Jiguo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

		Attributable to owners of the Company												
	Note	Share capital *RMB'000* *Note 39*	Share premium *RMB'000* *Note 40(a)*	Capital reserve *RMB'000* *Note 40(a)*	Statutory surplus reserve *RMB'000* *Note 40(a)*	General surplus reserve *RMB'000* *Note 40(a)*	General and statutory fund *RMB'000* *Note 40(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	(22,978)	137,539	64,744	5,464	70,758	(9,174)	72,550	101,508	2,806,249	232,654	3,038,903
Business combination under common control	2.1(a)	–	–	38,642	–	–	34	–	274	(591)	–	38,359	(2,723)	35,636
As restated		845,900	1,539,938	15,664	137,539	64,744	5,498	70,758	(8,900)	71,959	101,508	2,844,608	229,931	3,074,539
Comprehensive income														
Profit for the year		–	–	–	–	–	–	–	–	542,670	–	542,670	19,379	562,049
Other comprehensive income/(expense)														
Fair value loss on available-for-sale financial assets, net of tax		–	–	–	–	–	–	(6,881)	–	–	–	(6,881)	585	(6,296)
Currency translation differences		–	–	–	–	–	–	–	(1,437)	–	–	(1,437)	312	(1,125)
Recognition of deferred income	37	–	–	7,990	–	–	–	–	–	–	–	7,990	–	7,990
Total other comprehensive income/(expense)		–	–	7,990	–	–	–	(6,881)	(1,437)	–	–	(328)	897	569
Total comprehensive income/(expense) for the year		–	–	7,990	–	–	–	(6,881)	(1,437)	542,670	–	542,342	20,276	562,618

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 December 2011

		Attributable to owners of the Company												
	Note	Share capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	General and statutory fund	Available-for-sale financial assets reserve	Exchange reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 39	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*							
Contributions by and distributions to owners of the Company, recognised directly in equity														
Contributions from non-controlling shareholders of subsidiaries		—	—	36,000	—	—	—	—	—	—	—	36,000	22,000	58,000
Business combination under common control	44(b)	—	—	(61,709)	—	—	—	—	—	—	—	(61,709)	89,953	28,244
Acquisition of subsidiaries	42	—	—	—	—	—	—	—	—	—	—	—	2,170	2,170
Acquisition of additional interest in a subsidiary	41	—	—	(185)	—	—	—	—	—	—	—	(185)	(953)	(1,138)
Disposal of part interests in subsidiaries to non-controlling shareholders		—	—	(21)	—	—	—	(284)	—	—	—	(305)	32,175	31,870
Dividends paid to non-controlling shareholders		—	—	—	—	—	—	—	—	—	—	—	(3,304)	(3,304)
Dividend paid to former shareholders of a subsidiary relating to business combination under common control		—	—	—	—	—	—	—	—	(5,955)	—	(5,955)	—	(5,955)
Final 2009 dividend declared		—	—	—	—	—	—	—	—	—	(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 to/(from) reserves	40(a)	—	—	—	21,971	—	370	—	—	(22,341)	—	—	—	—
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	—	(25,915)	21,971	—	370	(284)	—	(197,476)	(33,836)	(235,170)	142,041	(93,129)
Balance at 31 December 2010		845,900	1,539,938*	(2,261)*	159,510*	64,744*	5,868*	63,593*	(10,337)*	417,153*	67,672	3,151,780	392,248	3,544,028

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 December 2011

		Attributable to owners of the Company												
	Note	Share capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	General and statutory fund	Available-for-sale financial assets reserve	Exchange reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 39	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*							
Balance at 1 January 2011														
As previously reported		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
Business combination under common control	2.1(a)	–	–	74,925	–	–	36	–	110	(6,239)	–	68,832	(3,127)	65,705
As restated		845,900	1,539,938	(2,261)	159,510	64,744	5,868	63,593	(10,337)	417,153	67,672	3,151,780	392,248	3,544,028
Comprehensive income														
Profit for the year		–	–	–	–	–	–	–	–	410,819	–	410,819	46,686	457,505
Other comprehensive expense														
Fair value loss on available-for-sale financial assets, net of tax		–	–	–	–	–	–	(63,072)	–	–	–	(63,072)	(2,875)	(65,947)
Currency translation differences		–	–	–	–	–	–	–	(15,097)	–	–	(15,097)	(1,723)	(16,820)
Total other comprehensive expense		–	–	–	–	–	–	(63,072)	(15,097)	–	–	(78,169)	(4,598)	(82,767)
Total comprehensive (expense)/income for the year		–	–	–	–	–	–	(63,072)	(15,097)	410,819	–	332,650	42,088	374,738

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 December 2011

		Attributable to owners of the Company												
	Note	Share capital	Share premium	Capital reserve	Statutory surplus reserve	General surplus reserve	General and statutory fund	Available-for-sale financial assets reserve	Exchange reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 39	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*	*Note 40(a)*							
Contributions by and distributions to owners of the Company, recognised directly in equity														
Capital injection to a subsidiary		—	—	—	—	—	—	—	—	—	—	—	6,600	6,600
Dividends paid to non-controlling shareholders		—	—	—	—	—	—	—	—	—	—	—	(6,653)	(6,653)
Acquisition of additional interests in subsidiaries	41	—	—	(5,384)	—	—	—	—	—	—	—	(5,384)	4,337	(1,047)
Business combination under common control	44(a)	—	—	(90,606)	—	—	—	—	—	—	—	(90,606)	—	(90,606)
Disposal of part interests in subsidiaries to non-controlling shareholders		—	—	2,732	—	—	—	—	—	—	—	2,732	23,268	26,000
Deregistration of a subsidiary		—	—	—	—	—	—	—	—	—	—	—	(9,800)	(9,800)
Final 2010 dividend declared	13	—	—	—	—	—	—	—	—	—	(67,672)	(67,672)	—	(67,672)
Transfers to/(from) reserves	40(a)	—	—	—	27,472	—	423	—	—	(27,895)	—	—	—	—
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	—	(93,258)	27,472	—	423	—	—	(27,895)	(67,672)	(160,930)	17,752	(143,178)
Balance at 31 December 2011		845,900	1,539,938*	(95,519)*	186,982*	64,744*	6,291*	521*	(25,434)*	800,077*	—	3,323,500	452,088	3,775,588

* These reserve accounts comprise the consolidated reserves of approximately RMB2,477,600,000 (2010: approximately RMB2,238,208,000).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Operating activities			
Profit before income tax		**536,042**	646,142
Adjustments for:			
Finance costs	8	**54,162**	28,166
Share of profits of associates		**(324)**	(1,247)
Bank interest income	6, 7	**(4,956)**	(15,072)
Gain on disposal of property, plant and equipment, net	6, 7	**(4,827)**	(5,029)
Gain on disposal of subsidiaries	6, 7, 43	**—**	(108,779)
Gain on bargain purchase	6, 7, 42	**(2,693)**	—
Depreciation of:			
Property, plant and equipment	7, 15	**129,415**	154,810
Investment properties	7, 16	**1,441**	270
Amortisation of:			
Prepaid operating leases	7, 17	**8,748**	3,652
Intangible assets	7, 18	**1,996**	—
Impairment of property, plant and equipment	7, 15	**—**	2,075
Dividend income from listed investments	6, 7	**(1,831)**	(3,212)
Dividend income from unlisted investments	6, 7	**(7,710)**	(4,328)
Gain on disposal of available-for-sale financial assets, net	6, 7	**(35,973)**	(14,127)
Gain on disposal of financial assets at fair value through profit or loss, net	6, 7	**(8,790)**	(2,153)
Provision for impairment of trade and bill receivables, net	7, 24	**18**	6,483
Provision for impairment of other receivables, net	7, 25	**1,430**	5,179
Provision for impairment of loan receivables, net	7, 22	**3,054**	1,663
(Reversal of)/provision for impairment of inventories, net	7, 23	**(6,896)**	9,850
Recognition of government grants	6, 37	**(10,689)**	(15,728)
Fair value loss/(gain) on financial assets at fair value through profit or loss, net	6, 7	**11,769**	(1,947)
Fair value gain on remeasurement of interests in associates	6, 7	**(123)**	(11,832)
Operating cash flows before changes in working capital		**663,263**	674,836

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)
Decrease/(increase) in inventories		**280,999**	(574,129)
Increase in trade and bill receivables		**(830,922)**	(730,892)
(Increase)/decrease in loan receivables		**(160,690)**	73,049
Decrease/(increase) in prepayments, deposits and other receivables		**174,184**	(29,831)
Decrease/(increase) in financial assets at fair value through profit or loss		**171,617**	(218,952)
Decrease/(increase) in placements with banks and non-bank financial institutions		**350,000**	(350,000)
Increase in mandatory reserve deposits with the People's Bank of China		**(20,995)**	(97,048)
Increase in trade and bill payables		**161,079**	639,134
(Decrease)/increase in other payables and accruals		**(343,440)**	356,798
Increase in customer deposits		**572,354**	280,197
(Decrease)/increase in repurchase agreements		**(99,500)**	99,500
Increase in placements from banks and non-bank financial institutions		**100,000**	100,000
(Decrease)/increase in bills discounted payables		**(251,781)**	284,375
(Decrease)/increase in provisions		**(59,910)**	34,021
Cash generated from operations		**706,258**	541,058
Interest received		**4,956**	15,072
Income tax paid		**(75,901)**	(94,885)
Net cash generated from operating activities		**635,313**	461,245

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)
Investing activities			
Dividend received from listed investments	6, 7	**1,831**	3,212
Dividend received from unlisted investments	6, 7	**7,710**	4,328
Purchase of property, plant and equipment	15	**(398,054)**	(869,842)
Proceeds from disposal of property, plant and equipment		**20,573**	49,576
Purchase of prepaid operating leases	17	**(287,661)**	(88,432)
Purchase of intangible assets	18	**(63,627)**	—
Purchase of available-for-sale financial assets		**(31,144)**	(123,474)
Proceeds from disposal of available-for-sale financial assets		**71,152**	18,690
Purchase of held-to-maturity financial assets		**(312,290)**	—
Receipt from the maturity of held-to-maturity financial assets		**316,757**	10,215
Receipt of government grants	37	**15,669**	14,869
Repayment of designated loans from a former subsidiary		**—**	11,500
Dividends paid to former shareholders of a deregistered subsidiary		**(9,800)**	—
Business combination under common control	44, 2.1(a)	**(93,291)**	(155,333)
Acquisition of additional interest in a subsidiary	41	**(1,047)**	(1,138)
Acquisition of subsidiaries	42	**(1,726)**	972
Disposal of subsidiaries	43	**—**	101,191
Net cash used in investing activities		**(764,948)**	(1,023,666)

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the year ended 31 December 2011

	Note	**2011**	2010
		RMB'000	*RMB'000*
			(Restated)
Financing activities			
Interest paid		**(54,361)**	(28,166)
Proceeds from borrowings		**1,986,860**	1,768,989
Repayments of borrowings		**(1,600,542)**	(1,199,506)
Contributions from non-controlling shareholders of subsidiaries		**6,600**	22,000
Contributions from former shareholders of a subsidiary relating to business combinations under common control		**—**	219,577
Dividends paid to shareholders of the Company		**(67,672)**	(203,016)
Dividends paid to non-controlling shareholders		**(6,653)**	(3,304)
Dividends paid to former shareholders of a subsidiary relating to business combinations under common control		**—**	(5,955)
Net cash generated from financing activities		**264,232**	570,619
Net increase in cash and cash equivalents		**134,597**	8,198
Effect of exchange rate changes, net		**(5,730)**	(2,849)
Cash and cash equivalents at beginning of year		**1,209,256**	1,203,907
Cash and cash equivalents at end of year	29	**1,338,123**	1,209,256

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	**2011** **RMB'000**	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,312,169**	1,121,319
Prepaid operating leases	17	**451,000**	66,400
Intangible assets	18	**57,542**	—
Interests in subsidiaries	19	**1,464,811**	1,137,246
Interests in associates	20	**12,000**	12,000
Available-for-sale financial assets	21	**40,824**	103,201
Deferred income tax assets	38	**9,033**	27,895
Total non-current assets		**3,347,379**	2,468,061
Current assets			
Inventories	23	**441,013**	869,880
Trade and bill receivables	24	**1,673,740**	794,052
Available-for-sale financial assets	21	**23,360**	—
Prepayments, deposits and other receivables	25	**364,435**	558,316
Loans to subsidiaries	19	**100,000**	99,000
Deposits placed with a subsidiary	19	**575,245**	401,748
Pledged bank deposits	29	**97,100**	127,000
Cash and cash equivalents	29	**50,081**	192,072
Total current assets		**3,324,974**	3,042,068
Current liabilities			
Trade and bill payables	30	**1,680,510**	1,339,061
Other payables and accruals	31	**365,577**	458,318
Borrowings	35	**1,278,467**	94,883
Current income tax liabilities		**24,109**	11,122
Provisions	36	**18,413**	29,240
Total current liabilities		**3,367,076**	1,932,624
Net current (liabilities)/assets		**(42,102)**	1,109,444
Total assets less current liabilities		**3,305,277**	3,577,505

STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Borrowings	35	**186,000**	600,000
Deferred income	37	**91,016**	91,034
Deferred income tax liabilities	38	**3,562**	8,937
Provisions	36	**36,715**	65,840
Total non-current liabilities		**317,293**	765,811
Net assets		**2,987,984**	2,811,694
Equity			
Share capital	39	**845,900**	845,900
Reserves	40(b)	**2,142,084**	1,898,122
Proposed final dividend	13	**—**	67,672
Total equity		**2,987,984**	2,811,694

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

Approved by the board of directors on 24 February 2012.

Zhao Yanshui
Director

Liu Jiguo
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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 "Stock Exchange").

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

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group, and all values are rounded to the nearest thousand unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale financial assets, and financial assets at fair value through profit or loss.

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

(a) Group reorganisation

In 2010 and 2011, the Group underwent reorganisation (as defined below). Since the directors of the Company consider the Company, Luoyang Tractors Research Institute Co., Ltd. ("LTRI"), YTO (Luoyang) Forklift Co., Ltd. ("YTO Forklift"), YTO International Economic and Trading Co., Ltd. ("YTO International") and YITWO Agro-Industrial as under common control of the Holding, the financial information of the Group has been accounted for as a reorganisation of companies under common control using the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

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

2.1 Basis of preparation *(Continued)*

(a) Group reorganisation *(Continued)*

Group reorganisation in 2010

In November 2010, the Company entered into Equity Transfer Agreements with the Holding to acquire 51% equity interests in LTRI. LTRI is a limited liability company established in the PRC. Its principal activities are technology development and consultancy services for agricultural machinery such as tractors.

The cash consideration for the 51% transfer of the equity interest was approximately RMB155,333,000. The transfer of the equity interests was completed in December 2010.

Group reorganisation in 2011

In May 2011, the Company entered into Equity Transfer Agreements with the Holding to acquire 86.82% equity interests in YTO Forklift at a consideration of approximately RMB6,896,000. The principal activities of YTO Forklift are manufacture and sale of forklifts. The transfer of the equity interests was completed in June 2011.

In the reporting period, the Company and its subsidiary China-Africa Machinery Corp. ("CAMACO") acquired 100% and 93.58% equity interests in YTO International and YITWO Agro-Industrial, at the consideration of approximately RMB81,393,000 and RMB5,002,000, respectively. The transfers of the equity interests were completed in June 2011. The principal activities of the acquired entities are sale of agricultural and construction machinery.

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

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

2.1 Basis of preparation *(Continued)*

(a) Group reorganisation *(Continued)*

Group reorganisation in 2011 *(Continued)*

Details of the adjustments for the common control combination on the Group's financial position as at 31 December 2011, 31 December 2010 and 31 December 2009 and the Group's results for the year ended 31 December 2011 and 31 December 2010 are set out in Note 44.

(b) Changes in accounting policy and disclosure

New and amended standards adopted by the Group:

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) 19	Extinguishing Financial Liabilities with Equity Instruments

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 current or prior accounting periods.

HKAS 24 (Revised) - Related Party Disclosures

HKAS 24 (Revised), "Related Party Disclosures" is effective for annual periods beginning on or after 1 January 2011. It introduces a partial exemption from the disclosure requirements for transactions with the government and government-related entities, and changes the definition of a related party. The revision requires the disclosure of the followings during the reporting period:

— The name of the government and the nature of their relationship;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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

2.1 Basis of preparation *(Continued)*

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

— The nature and amount of each individually significant transactions; and

— The extent of any collectively-significant transactions qualitatively or quantitatively.

Please refer to note 49(d) for disclosures of transactions with government related entities.

The Group has not early applied the following new standards, amendments and interpretations to standards that have been issued but not yet effective for the financial year beginning 1 January 2011, which are relevant to the Group:

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory effective date of HKFRS 9 and transaction disclosures[6]
HKFRS 9	Financial Instruments[4]
HKFRS10	Consolidated Financial Statements[4]
HKFRS11	Joint Arrangements[4]
HKFRS12	Disclosure of Interests in Other Entities[4]
HKFRS13	Fair Value Measurement [4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

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

2.2 Consolidation

(a) Business combination

(i) Merger accounting for common control combinations

The consolidated financial statements of the Group has been accounted for as a combination of business under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. 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 consolidated financial statements 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.

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.

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

2.2 Consolidation *(Continued)*

(a) Business combination *(Continued)*

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

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, 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 non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

(b) Subsidiaries

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

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

2.2 Consolidation *(Continued)*

(b) Subsidiaries

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 consolidated 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.

Acquisition-related costs are expensed as incurred.

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

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

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

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.13). 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

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share 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.

(ii) Disposal of subsidiaries

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

(d) Associates

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

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

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

2.2 Consolidation *(Continued)*

(d) Associates *(Continued)*

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

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

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.

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

2.4 Foreign currency translation *(Continued)*

(c) Group companies *(Continued)*

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.

2.5 Property, plant and equipment and depreciation

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

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

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

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

Land	Over the remaining lease terms
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 2.13).

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

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

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

2.6 Prepaid operating leases

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

2.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of certain intangible assets are assessed to be indefinite.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Amortisation is calculated on the straight-line basis to write off the cost of each item of intangible assets to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Trademark	10 years
Others	1–2 years

2.8 Investment properties

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

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

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

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

2.9 Research and development costs

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

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

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

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

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

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

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available for sale 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 those classified as held for trading and those designated at fair value through profit or loss.

(i) Financial assets held for trading

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

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

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

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

2.11 Financial assets *(Continued)*

2.11.1 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)*

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.

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.

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

2.11 Financial assets *(Continued)*

2.11.1 Classification *(Continued)*

(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 consolidated 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.

2.11.2 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. 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.

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

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement *(Continued)*

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the 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.

2.12 Offsetting financial instruments

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

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

2.13 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

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

2.14 Repurchase agreements

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognised on the consolidated 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.

2.15 Inventories

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

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

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

2.16 Trade receivables and other receivables

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

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

2.17 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months 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.

2.18 Trade payables and other payables

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

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

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

2.19 Borrowings

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

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

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

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

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

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

2.21 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

2.23 Financial guarantee contracts

Financial guarantee contracts 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.

2.24 Share capital

Ordinary shares are classified as equity.

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

2.25 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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

2.25 Employee benefits *(Continued)*

(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.

2.26 Revenue recognition

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Revenue recognition *(Continued)*

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

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

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

2.27 Government grants

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

As explained in Note 37, certain government grants obtained are treated as deferred income in the consolidated, and the Company's, statements of financial position and credited to the other comprehensive income in accordance with conditions set by the government body.

2.28 Borrowing costs

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.29 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.

2.30 Dividends

Final dividends proposed by the directors (if any) 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 (if any) had been approved by the shareholders and declared, it is recognised as a liability.

2.31 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

2.31 Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

2.32 Comparatives

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The business of the Group is principally located in the PRC. As most of the transactions are in RMB, the Group does not have significant exposure to foreign currency risk. As at 31 December 2011, the Group had short term deposits denominated in Hong Kong dollars ("HK$") and United States dollars ("US$") of approximately RMB23,629,000 (2010: approximately RMB8,536,000) and approximately RMB28,410,000(2010: approximately RMB7,747,000) (Note 29), respectively. The Group does not use derivative financial instruments to hedge its foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the 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*
2011		
If Renminbi strengthens against HK$ and US$	**(5)**	**(2,732)**
If Renminbi weakens against HK$ and US$	**5**	**2,732**
2010		
If Renminbi strengthens against HK$ and US$	(5)	(814)
If Renminbi weakens against HK$ and US$	5	814

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 2011	**High/low 2011**	31 December 2010	High/low 2010
Hong Kong Exchange				
— Hang Seng Index	**18,434**	**24,469/16,170**	23,035	24,989/18,972
Shanghai Stock Exchange				
— SSE Composite Index	**2,199**	**3,067/2,134**	2,808	3,307/2,320
Shenzhen Stock Exchange				
— SZSE Component Index	**8,919**	**13,233/8,555**	12,459	13,937/8,945

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk *(Continued)*

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

	Group			
	Impact on pre-tax profit		Impact on other components of equity	
	RMB'000		*RMB'000*	
	2011	2010 (Restated)	**2011**	2010 (Restated)
Hang Seng Index	**283**	812	**—**	—
SSE Composite Index	**5,145**	1,388	**4,036**	13,109
SZSE Component Index	**1,198**	2,228	**5,895**	5,539

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

(iii) Interest rate risk

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

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
2011	**+100**	**(9,341)**
2010	+100	(323)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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:

	2011 Interest rate %	2010 Interest rate %
Assets		
Loan receivables	**4.67–5.08**	3.83–6.07
Placements with bank and non-bank financial institutions	—	6.00–6.50
Cash and cash equivalents/pledge bank deposits	**0.50–5.50**	0.36–2.75
Liabilities		
Customer deposits	**0.51–3.31**	0.36–2.75
Placements from banks and non-bank financial institutions	**4.58–5.53**	6.40
Borrowings	**6.10–6.89**	4.05–6.37

(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 2011, 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 46.

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 so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, external regulatory or legal requirements (where applicable) – for example, currency restrictions.

Surplus cash held by the operating entities over and above 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 RMB1,389,091,000 (2010:approximately RMB1,182,835,000) (Note 29), no placements with banks and non-bank financial institutions (2010: RMB350,000,000) (Note 28) and trade and bill receivables of approximately RMB2,391,219,000 (2010: approximately RMB1,555,731,000) (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 RMB10,848,000 (2010:approximately RMB9,384,000) (Note 26), which could be readily realised to provide a further source of cash should the need arise.

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Group

2011	**Within one year or repayable on demand** *RMB'000*	**One to two years** *RMB'000*	**Three to five years** *RMB'000*	**Total** *RMB'000*
Borrowings	**1,014,611**	**57,110**	**163,766**	**1,235,487**
Trade and bill payables	**2,193,221**	**—**	**—**	**2,193,221**
Other payables and accruals	**520,891**	**—**	**—**	**520,891**
Customer deposits	**1,112,774**	**—**	**—**	**1,112,774**
Placements from banks and non-bank financial institutions	**200,000**	**—**	**—**	**200,000**
	5,041,497	**57,110**	**163,766**	**5,262,373**

2010	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)
Borrowings	438,137	650,162	—	1,088,299
Trade and bill payables	2,026,864	—	—	2,026,864
Other payables and accruals	308,704	—	—	308,704
Customer deposits	540,420	—	—	540,420
Repurchase agreements	99,500	—	—	99,500
Placements from banks and non-bank financial institutions	100,000	—	—	100,000
	3,513,625	650,162	—	4,163,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Company

2011	**Within one year or repayable on demand** *RMB'000*	**One to two years** *RMB'000*	**Three to five years** *RMB'000*	**Total** *RMB'000*
Borrowings	**1,323,886**	**57,110**	**163,766**	**1,544,762**
Trade and bill payables	**1,680,510**	**—**	**—**	**1,680,510**
Other payables	**306,721**	**—**	**—**	**306,721**
	3,311,117	**57,110**	**163,766**	**3,531,993**

2010	Within one year or repayable on demand *RMB'000*	One to two years *RMB'000*	Three to five years *RMB'000*	Total *RMB'000*
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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

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	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Borrowings	**1,155,468**	1,025,726
Trade and bill payables	**2,193,221**	2,026,864
Other payables and accruals	**793,435**	970,679
Customer deposits	**1,112,774**	540,420
Repurchase agreements	**—**	99,500
Placements from banks and non-bank financial institutions	**200,000**	100,000
Less : Cash and cash equivalents and pledged bank deposits	**(1,512,425)**	(1,362,563)
Net debt	**3,942,473**	3,400,626
Total equity (excluding non-controlling interests)	**3,323,500**	3,151,780
Total equity and net debt	**7,265,973**	6,552,406
Gearing ratio	**54%**	52%

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management *(Continued)*

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

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:

2011	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Assets				
Financial assets at fair value through profit or loss	**77,398**	—	—	**77,398**
Held-to-maturity financial assets	—	—	—	—
Available-for-sale financial assets	**99,306**	—	**103,404**	**202,710**
Total assets	**176,704**	—	**103,404**	**280,108**

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

2010	Level 1 *RMB'000* (Restated)	Level 2 *RMB'000* (Restated)	Level 3 *RMB'000* (Restated)	Total *RMB'000* (Restated)
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	186,481	—	102,984	289,465
Total assets	238,353	201,122	102,984	542,459

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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 for the year ended 31 December 2011 are as follows:

	Available-for-sale financial assets	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Opening balance	**102,984**	59,797
Additions	**420**	44,891
Disposals	**—**	(250)
Transferred to level 1	**—**	(1,454)
Closing balance	**103,404**	102,984
Total gains for the year included in profit or loss for assets held at the end of the reporting period	**—**	55

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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 2011 was approximately RMB2,063,595,000 (2010:approximately RMB1,830,551,000). 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 2011 was approximately RMB2,391,219,000 (2010:approximately RMB1,555,731,000). More details are given in Note 24.

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

Provision for obsolete inventories

Management reviews the condition of the inventories of the Group and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at 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 2011 was approximately RMB1,110,557,000 (2010: approximately RMB1,376,835,000). More details are given in Note 23.

Provision for product warranties

Provision for product warranties is estimated based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Factors considered in the estimation include the unit rate charged by repair 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 2011 was approximately RMB22,123,000 (2010: approximately RMB46,891,000). More details are given in Note 36.

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 2011 was approximately RMB64,720,000 (2010: approximately RMB99,862,000). More details are given in Note 36.

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.

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

Deferred income tax assets

Deferred income tax assets are recognised for all unused tax losses and deductible temporary 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 2011 was approximately RMB46,667,000 (2010: approximately RMB38,825,000). More details are given in Note 38.

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 2011, impairment losses of approximately RMB2,123,000 (2010: 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 2011 was approximately RMB179,350,000 (2010:approximately RMB289,465,000). 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.

5. SEGMENT INFORMATION *(CONTINUED)*

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

(a) the "agricultural machinery" segment engages in the research and development, manufacture and sale of agricultural machinery (including tractors, related parts and components);

(b) the "power machinery" segment engages in the manufacture and sale of diesel engines, fuel injection pumps and fuel jets ;

(c) the "other machinery" segment engages in the manufacture and sale of forklifts, mining trucks and other machinery ; and

(d) the "financial operation' segment engages in the provision of loans lending, bills discounting and deposit-taking services.

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

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

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

5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011.

	Agricultural machinery *RMB'000*	Power machinery *RMB'000*	Other machinery *RMB'000*	Financial operation *RMB'000*	Unallocated and eliminations *RMB'000*	Total *RMB'000*
Income statement						
Revenue:						
Sales to external customers	9,356,125	1,470,155	436,128	66,137	—	11,328,545
Intersegment sales *(Note)*	523,136	740,907	58,344	28,620	(1,351,007)	—
	9,879,261	2,211,062	494,472	94,757	(1,351,007)	11,328,545
Interest, dividend and investment income					50,308	
Corporate income, net					3,202	
Finance costs					(54,162)	
Share of profits of associates					324	
Profit before income tax	297,660	191,227	(6,314)	53,797	(328)	536,042
Income tax expense						(78,537)
Profit for the year						457,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011. *(Continued)*

	Agricultural machinery *RMB'000*	Power machinery *RMB'000*	Other machinery *RMB'000*	Financial operation *RMB'000*	Unallocated and eliminations *RMB'000*	Total *RMB'000*
Other segment information						
Capital expenditure	815,849	80,793	2,285	227	—	889,154
Depreciation of property, plant and equipment	89,465	36,750	2,923	277	—	129,415
Depreciation of investment properties	1,441	—	—	—	—	1,441
Amortisation of prepaid operating leases	7,457	774	503	14	—	8,748
Amortisation of intangible assets	1,996	—	—	—	—	1,996
Provision for product warranties	66,736	43,430	2,975	—	—	113,141
Provision for/(reversal of) impairment of trade receivables, net	4,815	(6,661)	1,864	—	—	18
Provision for/(reversal of) impairment of other receivables, net	1,351	238	(159)	—	—	1,430
Provision for/(reversal of) impairment of inventories, net	(8,755)	1,799	60	—	—	(6,896)
Provision for impairment of loan receivables, net	—	—	—	3,054	—	3,054

5. SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit and certain information about assets, liabilities and expenditure for the Group's business segments for the year ended 31 December 2011. *(Continued)*

	Agricultural machinery *RMB'000*	Power machinery *RMB'000*	Other machinery *RMB'000*	Financial operation *RMB'000*	Unallocated and eliminations *RMB'000*	Total *RMB'000*
Statement of financial position						
Assets						
Segment assets	6,436,762	1,461,046	367,317	2,682,192	(1,860,371)	9,086,946
Interests in associates						13,314
Unallocated assets						386,462
Total consolidated assets						9,486,722
Liabilities						
Segment liabilities	3,079,309	703,402	323,287	2,204,854	(1,860,371)	4,450,481
Unallocated liabilities						1,260,653
Total consolidated liabilities						5,711,134

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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.

	Agricultural machinery *RMB'000* (Restated)	Power machinery *RMB'000* (Restated)	Other machinery *RMB'000* (Restated)	Financial operation *RMB'000* (Restated)	Unallocated and eliminations *RMB'000* (Restated)	Total *RMB'000* (Restated)
Income statement						
Revenue:						
Sales to external customers	8,140,502	1,225,215	854,841	45,274	—	10,265,832
Intersegment sales *(Note)*	655,343	716,851	129,508	16,430	(1,518,132)	—
	8,795,845	1,942,066	984,349	61,704	(1,518,132)	10,265,832
Interest, dividend and investment income					52,671	
Gain on disposal of subsidiaries					108,779	
Corporate income, net					1,002	
Finance costs					(28,166)	
Share of profits of associates					1,247	
Profit before income tax	257,374	179,900	36,277	37,058	135,533	646,142
Income tax expense						(84,093)
Profit for the year						562,049

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* (Restated)	Power machinery *RMB'000* (Restated)	Other machinery *RMB'000* (Restated)	Financial operation *RMB'000* (Restated)	Unallocated and eliminations *RMB'000* (Restated)	Total *RMB'000* (Restated)
Other segment information:						
Capital expenditure	839,070	114,347	4,085	772	—	958,274
Depreciation of property, plant and equipment	101,224	41,074	12,133	379	—	154,810
Depreciation of investment properties	270	—	—	—	—	270
Amortisation of prepaid operating leases	3,036	—	612	4	—	3,652
Provision for product warranties	34,320	58,864	13,875	—	—	107,059
Impairment of property, plant and equipment	2,075	—	—	—	—	2,075
Provision for/(reversal of) impairment of trade receivables, net	12,288	1,511	(7,316)	—	—	6,483
Provision for/(reversal of) impairment of other receivables, net	4,212	836	190	(59)	—	5,179
Provision for/(reversal of) impairment of inventories, net	12,882	(3,033)	1	—	—	9,850
Provision for impairment of loan receivables, net	—	—	—	1,663	—	1,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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* (Restated)	Power machinery *RMB'000* (Restated)	Other machinery *RMB'000* (Restated)	Financial operation *RMB'000* (Restated)	Unallocated and eliminations *RMB'000* (Restated)	Total *RMB'000* (Restated)
Statement of financial position						
Assets						
Segment assets	5,370,943	1,262,768	337,796	1,874,304	(881,893)	7,963,918
Interests in associates						15,121
Unallocated assets						638,591
Total consolidated assets						8,617,630
Liabilities						
Segment liabilities	2,464,806	641,791	298,887	1,341,829	(881,893)	3,865,420
Unallocated liabilities						1,208,182
Total consolidated liabilities						5,073,602

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:

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Earnings before interest, tax, depreciation and amortisation of business segments	**677,970**	669,341
Depreciation of properties, plant and equipment	**(129,415)**	(154,810)
Depreciation of investment properties	**(1,441)**	(270)
Amortisation of prepaid operating leases	**(8,748)**	(3,652)
Amortisation of intangible assets	**(1,996)**	—
Corporate income, net	**3,202**	1,002
Operating profit	**539,572**	511,611
Interest, dividend and investment income	**50,308**	52,671
Gain on disposal of subsidiaries	**—**	108,779
Finance costs	**(54,162)**	(28,166)
Share of profits of associates	**324**	1,247
Profit before income tax	**536,042**	646,142

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

5. SEGMENT INFORMATION *(CONTINUED)*

Segment assets are summarised as below:

	2011 *RMB'000*	2010 *RMB'000* (Restated)
Segment assets as allocated by business segments	**9,086,946**	7,963,918
Unallocated assets:		
Available-for-sale financial assets	**202,710**	289,465
Deferred income tax assets	**46,667**	38,825
Financial assets at fair value through profit or loss	**77,398**	251,994
Interests in associates	**13,314**	15,121
Others	**59,687**	58,307
Total assets as per consolidated statement of financial position	**9,486,722**	8,617,630

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:

	2011 *RMB'000*	2010 *RMB'000* (Restated)
Segment liabilities as allocated by business segments	**4,450,481**	3,865,420
Unallocated liabilities:		
Borrowings	**1,155,468**	1,025,726
Deferred income tax liabilities	**15,130**	27,062
Provisions	**86,843**	146,753
Others	**3,212**	8,641
Total liabilities as per consolidated statement of financial position	**5,711,134**	5,073,602

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

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)
Revenue			
Sales of goods		**11,262,656**	10,220,804
Interest income from financial operation on:			
Loans and advances to customers	7	**44,023**	29,901
Financial investments	7	**9,929**	5,435
Due from central bank, other banks and financial institutions	7	**6,962**	5,369
Fee and commission income from financial operation	7	**4,975**	4,323
		11,328,545	10,265,832
Other income			
Bank interest income	7	**4,956**	15,072
Dividend income from listed investments	7	**1,831**	3,212
Dividend income from unlisted investments	7	**7,710**	4,328
Government grants	36	**10,689**	15,728
Others		**9,303**	19,723
		34,489	58,063

6. REVENUE, OTHER INCOME AND GAINS *(CONTINUED)*

An analysis of revenue, other income and gains are as follows: *(Continued)*

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)
Other gains			
Compensation received from former shareholders of a subsidiary	7	—	10,940
Fair value (loss)/gains on financial assets at fair value through profit or loss, net	7	**(11,769)**	1,947
Fair value gains on remeasurement of interests in associates	7	**123**	11,832
Gain on bargain purchase	7, 42	**2,693**	—
Gain on disposal of available-for-sale financial assets, net	7	**35,973**	14,127
Gain on disposal of financial assets at fair value through profit or loss, net	7	**8,790**	2,153
Gain on disposal of property, plant and equipment, net	7	**4,827**	5,029
Gain on disposal of subsidiaries	7, 43	—	108,779
Write-off of other payables	7	**379**	6,931
		41,016	161,738
		75,505	219,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

7. PROFIT BEFORE INCOME TAX

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

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Cost of inventories sold ***	23	**9,755,600**	8,577,581
Depreciation of property, plant and equipment	15	**129,415**	154,810
Depreciation of investment properties	16	**1,441**	270
Impairment of property, plant and equipment*	15	**—**	2,075
Amortisation of prepaid operating leases	17	**8,748**	3,652
Amortisation of intangible assets	18	**1,996**	—
Employee benefits expenses (excluding directors' and supervisors' remuneration – Note 9):			
Wages and salaries		**591,595**	546,814
Pension scheme contributions**		**89,434**	93,285
(Reversal of)/provision for early retirement benefits	36	**(10,888)**	26,144
		670,141	666,243
Research and development costs		**358,220**	265,890
Auditors' remuneration		**4,672**	5,548
Provision for impairment of trade and bill receivables, net *	24	**18**	6,483
Provision for impairment of other receivables, net *	25	**1,430**	5,179
Provision for product warranties	36	**113,141**	107,059
Provision for impairment of loan receivables, net *	22	**3,054**	1,663
(Reversal of)/provision for impairment of inventories, net	23	**(6,896)**	9,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

7. PROFIT BEFORE INCOME TAX *(CONTINUED)*

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

	Note	**2011 RMB'000**	2010 RMB'000 (Restated)
Interest expense from financial operation		**19,842**	12,068
Fee and commission expenses from financial operation		**222**	295
Interest income from financial operation on:			
Loans and advances to customers	6	**(44,023)**	(29,901)
Financial investments	6	**(9,929)**	(5,435)
Due from central bank, other banks and financial institutions	6	**(6,962)**	(5,369)
Fee and commission income from financial operation	6	**(4,975)**	(4,323)
Bank interest income	6	**(4,956)**	(15,072)
Dividend income from listed investments	6	**(1,831)**	(3,212)
Dividend income from unlisted investments	6	**(7,710)**	(4,328)
Gain on bargain purchase	6, 42	**(2,693)**	—
Compensation received from former shareholders of a subsidiary	6	**—**	(10,940)
Fair value loss/(gain) on financial assets at fair value through profit or loss, net	6	**11,769**	(1,947)
Fair value gain on remeasurement of interests in associates	6	**(123)**	(11,832)
Gain on disposal of available-for-sale financial assets, net	6	**(35,973)**	(14,127)
Gain on disposal of financial assets at fair value through profit or loss, net	6	**(8,790)**	(2,153)
Gain on disposal of property, plant and equipment, net *	6	**(4,827)**	(5,029)
Gain on disposal of subsidiaries	6, 43	**—**	(108,779)
Write-off of other payables	6	**(379)**	(6,931)
Foreign exchange differences, net *		**(1,952)**	1,882
Minimum lease payments under operating leases of land and building, and plant and machinery		**13,012**	29,070
Gross rental income		**(4,927)**	(5,438)

7. PROFIT BEFORE INCOME TAX *(CONTINUED)*

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

** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

*** Depreciation, direct labour costs and manufacturing overhead expenses were included.

8. FINANCE COSTS

	2011 **RMB'000**	2010 RMB'000 (Restated)
Interest on bank and other borrowings wholly repayable within 5 years	**62,549**	28,166
Less: Interest capitalised into construction in progress	**(8,387)**	—
	54,162	28,166

Finance costs on funds borrowed generally are capitalised at a rate of 6.13% (2010: Nil) per annum.

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:

	2011 **RMB'000**	2010 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,844**	1,343
Performance related bonuses	**—**	—
Pension scheme contributions	**238**	208
	2,082	1,551
	2,082	1,551

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

	Fees *RMB'000*	Salaries, allowances and benefits *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2011					
Executive and non-executive directors:					
Mr. Liu Yongle	—	80	—	16	96
Mr. Qu Dawei	—	80	—	16	96
Mr. Li Youji (a)	—	—	—	—	—
Mr. Li Xibin (b)	—	34	—	9	43
Ms. Dong Jianhong	—	80	—	16	96
Mr. Zhao Yanshui	—	120	—	24	144
Mr. Su Weike (a)	—	—	—	—	—
Mr. Yan Linjiao	—	80	—	16	96
Mr. Liu Jiguo (a)	—	511	—	38	549
Mr. Shao Haichen (b)	—	—	—	—	—
	—	985	—	135	1,120
Independent non-executive directors:					
Mr. Hong Xianguo	—	66	—	—	66
Mr. Chan Sau Shan, Gary	—	62	—	—	62
Mr. Luo Xiwen	—	64	—	—	64
Mr. Zhang Qiusheng	—	63	—	—	63
	—	255	—	—	255
Supervisors:					
Ms. Yi Liwen	—	60	—	12	72
Mr. Wang Yong	—	46	—	—	46
Mr. Huang Ping	—	44	—	—	44
Mr. Shao Jianxin	—	165	—	33	198
Mr. Zheng Luyu	—	80	—	16	96
Mr. Wang Jianjun	—	209	—	42	251
	—	604	—	103	707
	—	1,844	—	238	2,082

(a) Appointed on 17 June 2011

(b) Resigned on 25 March 2011

In 2011, except for Mr. Su Weike and Mr. Li Youji, there was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year. Mr. Su Weike and Mr. Li Youji agreed to waive all remuneration in August and September 2011, respectively.

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

	Fees	Salaries, allowances and benefits	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010					
Executive and non-executive directors:					
Mr. Liu Yongle	—	40	—	8	48
Mr. Qu Dawei	—	61	—	12	73
Mr. Li Xibin	—	257	—	51	308
Ms. Dong Jianhong	—	94	—	19	113
Mr. Liu Dagong (b)	—	114	—	23	137
Mr. Zhao Yanshui (c)	—	94	—	19	113
Mr. Yan Linjiao	—	94	—	19	113
Mr. Shao Haichen	—	94	—	19	113
	—	848	—	170	1,018
Independent non-executive directors:					
Mr. Hong Xianguo	—	70	—	—	70
Mr. Chan Sau Shan, Gary	—	62	—	—	62
Mr. Luo Xiwen	—	68	—	—	68
Mr. Zhang Qiusheng (a)	—	2	—	—	2
	—	202	—	—	202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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

	Fees *RMB'000*	Salaries, allowances and benefits *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Supervisors:					
Ms. Yi Liwen	—	—	—	—	—
Mr. Wang Yong	—	44	—	—	44
Mr. Huang Ping	—	50	—	—	50
Mr. Shao Jianxin	—	63	—	12	75
Mr. Zhao Shengyao (d)	—	63	—	12	75
Mr. Zheng Luyu	—	73	—	14	87
Mr. Wang Jianjun (e)	—	—	—	—	—
	—	293	—	38	331
	—	1,343	—	208	1,551

(a) Appointed on 16 August 2010

(b) Resigned on 26 November 2010

(c) Change 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.

10. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2010: one) directors whose emoluments is reflected in the analysis presented in Note 9. The emoluments payable to the remaining three (2010: four) individuals during the year are as follows:

	2011	2010
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,389**	1,340
Performance related bonuses	**—**	—
Pension scheme contributions	**278**	268
	1,667	1,608

Two of the highest paid employees (2010: One) for the year are directors of the Company, details of whose remuneration are set out in Note 9 above.

The remuneration of the three (2010: four) non-director, highest paid employees fell within the band of nil to RMB1,000,000.

11. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Current – PRC corporate income tax		
Charge for the year	**80,244**	65,295
Adjustments in respect of prior years	**863**	(1,929)
Deferred income tax *(Note 38)*	**(2,570)**	20,727
Total income tax charge for the year	**78,537**	84,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

11. INCOME TAX EXPENSE *(CONTINUED)*

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 25% (2010: 15% to 25%) on their estimated assessable profits for the year, based on existing legislation, interpretations and practices.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2011 and 2010.

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 (2010: Nil).

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

	Group			
	2011		2010	
	RMB'000	**%**	*RMB'000* (Restated)	%
Profit before income tax	**536,042**		646,142	
Tax at the PRC statutory tax rate of 25% (2010: 25%)	**134,010**	**25**	161,535	25
Entities subject to lower income tax rates for specific provinces or enacted by local authorities	**(52,573)**	**(10)**	(44,419)	(7)
Adjustments in respect of current tax of previous periods	**863**	**—**	(1,929)	—
Profits attributable to associates	**(48)**	**—**	(187)	—
Income not subject to tax	**(55,150)**	**(10)**	(66,230)	(10)
Expenses not tax deductible to tax	**29,006**	**5**	57,715	9
Tax losses utilised	**(2,295)**	**—**	(1,079)	—
Unrecognised tax losses	**27,488**	**5**	10,759	1
Adjustments in respect of current tax for investment loss recognised in prior years	**—**	**—**	(33,996)	(5)
Others	**(2,764)**	**—**	1,924	—
Income tax expense at the Group's effective rate	**78,537**	**15**	84,093	13

11. INCOME TAX EXPENSE *(CONTINUED)*

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

	2011 ***RMB'000***	2010 *RMB'000* (Restated)
Current tax	**—**	—
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Fair value changes of available-for-sale financial assets *(Note 38)*	**(17,205)**	962
Total income tax (credited)/charged to other comprehensive income	**(17,205)**	962

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2011 which has been dealt with in the financial statements of the Company is approximately RMB274,423,000 (2010: approximately RMB219,015,000) (Note 40(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

13. DIVIDENDS

The dividends paid in 2011 and 2010 were RMB67,672,000 (RMB0.08 per share) and RMB203,016,000 (RMB0.24 per share) respectively.

	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid, of Nil (2010: RMB12 cents) per ordinary share *(Note 40(b))*	—	101,508
Final dividend, proposed, of Nil (2010: RMB8 cents) per ordinary share *(Note 40(b))*	—	67,672
	—	169,180

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB410,819,000 (2010: approximately RMB542,670,000) and the weighted average of 845,900,000 (2010: 845,900,000) ordinary shares in issue during the year.

No diluting events occurred during the years ended 31 December 2011 and 2010.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land, outside the PRC (Restated) *RMB'000*	Buildings (Restated) *RMB'000*	Plant, machinery and equipment (Restated) *RMB'000*	Transportation vehicles and equipment (Restated) *RMB'000*	Construction in progress (Restated) *RMB'000*	Total (Restated) *RMB'000*
At 1 January 2010, as restated						
Cost	—	1,106,303	1,749,309	59,859	144,798	3,060,269
Accumulated depreciation and impairment	—	(651,323)	(1,131,758)	(29,714)	(8,783)	(1,821,578)
Net book amount	—	454,980	617,551	30,145	136,015	1,238,691
Year ended 31 December 2010						
Opening net book amount						
— As previously reported	—	444,351	614,230	28,618	134,059	1,221,258
— Business combination under common control	—	10,629	3,321	1,527	1,956	17,433
— As restated	—	454,980	617,551	30,145	136,015	1,238,691
Additions	—	96,843	135,945	5,064	631,990	869,842
Transfers in/(out)	—	80,810	32,402	1,267	(114,479)	—
Disposals	—	(34,221)	(8,000)	(2,326)	—	(44,547)
Acquisitions of subsidiaries *(Note 42)*	—	—	539	378	—	917
Disposal of subsidiaries *(Note 43)*	—	(38,688)	(36,304)	(2,310)	(165)	(77,467)
Depreciation charged for the year *(Note 7)*	—	(39,646)	(111,432)	(3,732)	—	(154,810)
Impairment charge *(Note 7)*	—	—	(2,075)	—	—	(2,075)
Closing net book amount	—	520,078	628,626	28,486	653,361	1,830,551
At 31 December 2010, as restated						
Cost	—	1,028,242	1,750,838	43,145	661,740	3,483,965
Accumulated depreciation and impairment	—	(508,164)	(1,122,212)	(14,659)	(8,379)	(1,653,414)
Net book amount	—	520,078	628,626	28,486	653,361	1,830,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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

Group *(Continued)*

	Freehold land, outside the PRC	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011						
Opening net book amount						
— As previously reported	—	510,974	625,275	26,869	651,197	1,814,315
— Business combination under common control	—	9,104	3,351	1,617	2,164	16,236
— As restated	—	520,078	628,626	28,486	653,361	1,830,551
Additions	8,971	33,961	25,014	1,661	328,447	398,054
Transfers in/(out)	—	64,714	193,121	5,570	(263,405)	—
Transferred to prepaid operating leases *(Note 17)*	—	—	—	—	(22,092)	(22,092)
Disposals	—	(7,967)	(4,774)	(1,136)	—	(13,877)
Acquisition of subsidiaries *(Note 42)*	—	—	126	248	—	374
Depreciation charged for the year *(Note 7)*	—	(27,603)	(98,162)	(3,650)	—	(129,415)
Closing net book amount	8,971	583,183	743,951	31,179	696,311	2,063,595
At 31 December 2011						
Cost	8,971	1,143,447	1,858,810	48,090	704,690	3,764,008
Accumulated depreciation and impairment	—	(560,264)	(1,114,859)	(16,911)	(8,379)	(1,700,413)
Net book amount	8,971	583,183	743,951	31,179	696,311	2,063,595

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

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010					
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
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 in/(out)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

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 2011					
Opening net book amount	258,958	402,124	6,038	454,199	1,121,319
Additions	33,594	3,387	538	235,090	272,609
Transfers in/(out)	64,468	145,330	4,916	(214,714)	—
Disposals	(1,386)	(2,986)	(425)	—	(4,797)
Depreciation charged for the year	(19,105)	(56,377)	(1,480)	—	(76,962)
Closing net book amount	336,529	491,478	9,587	474,575	1,312,169
At 31 December 2011					
Cost	749,506	1,228,981	16,128	482,954	2,477,569
Accumulated depreciation and impairment	(412,977)	(737,503)	(6,541)	(8,379)	(1,165,400)
Net book amount	336,529	491,478	9,587	474,575	1,312,169

Certain of the Group's buildings are leased to the Holding and third parties under operating leases, the lease rental amounting to approximately RMB4,927,000 (2010: approximately RMB5,438,000) are included in the consolidated income statement (Note 7). The summary details of operating lease arrangements are included in Note 48(b) to the consolidated financial statements.

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

The Group and Company has not pledged its buildings and machinery for the two years ended 31 December 2011 and 2010.

16. INVESTMENT PROPERTIES

	Group	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Net book amount at 1 January		
— As previously reported	**35,302**	—
— Business combination under common control	**—**	—
— As restated	**35,302**	—
Acquisition of subsidiaries *(Note 42)*	**—**	35,572
Depreciation charged for the year *(Note 7)*	**(1,441)**	(270)
Net book amount at 31 December	**33,861**	35,302
As 31 December		
Cost	**35,572**	35,572
Accumulated depreciation and impairment	**(1,711)**	(270)
Net book amount	**33,861**	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.

The Group has not pledged its investment properties for the two years ended 31 December 2011 and 2010.

The fair value of the Group's investment properties as at 31 December 2011 was approximately 33,861,000 (2010: 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 RMB2,048,000 (2010: approximately RMB 382,000). Direct operating expenses arising on the investment properties amounted to approximately RMB1,441,000 (2010: approximately RMB270,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

17. PREPAID OPERATING LEASES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Net book amount at 1 January				
— As previously reported	**190,062**	76,689	**66,400**	67,774
— Business combination under common control	**18,323**	18,756	**—**	—
— As restated	**208,385**	95,445	**66,400**	67,774
Additions	**437,473**	88,432	**389,403**	—
Acquisition of subsidiaries *(Note 42)*	**—**	30,499	**—**	—
Disposal of subsidiaries *(Note 43)*	**—**	(2,339)	**—**	—
Capital injection by a non-controlling shareholder	**26,000**	—	**—**	—
Transfer from property, plant and equipment *(Note 15)*	**22,092**	—	**—**	—
Amortisation charged for the year *(Note 7)*	**(8,748)**	(3,652)	**(4,803)**	(1,374)
Net book amount at 31 December	**685,202**	208,385	**451,000**	66,400
As 31 December				
Cost	**701,381**	215,816	**458,093**	68,690
Accumulated amortisation	**(16,179)**	(7,431)	**(7,093)**	(2,290)
Net book amount	**685,202**	208,385	**451,000**	66,400

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

At 31 December 2011, certain of the Group's land use rights with an net carrying value of approximately RMB6,162,000 (2010: approximately RMB24,622,000), were pledged to secure borrowings granted to the Group (Note 35(i)).

18. INTANGIBLE ASSETS

	Group				Company
	Trademark	**License**	**Others**	**Total**	**Trademark**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions	**59,527**	**4,081**	**19**	**63,627**	**59,527**
Amortisation charged for the year *(Note 7)*	**(1,985)**	**—**	**(11)**	**(1,996)**	**(1,985)**
Net book amount at 31 December 2011	**57,542**	**4,081**	**8**	**61,631**	**57,542**
At 31 December 2011					
Cost	**59,527**	**4,081**	**19**	**63,627**	**59,527**
Accumulated amortisation	**(1,985)**	**—**	**(11)**	**(1,996)**	**(1,985)**
Net book amount	**57,542**	**4,081**	**8**	**61,631**	**57,542**

The Group has not pledged its intangible assets for the year ended 31 December 2011.

Impairment test for intangible assets with indefinite useful life

The useful life of the license is assessed to be indefinite. The factors considered in the assessment of the useful life of the license include analysis of the market and competitive trends, product life cycles and management's long-term strategic development. Overall, these factors provided evidence that the license is expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amount of the license is estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the license is allocated. This method considers cash flows of the subsidiary (cash-generating unit) for the five years ending 31 December 2016 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 1% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of approximately 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

19. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	*RMB'000*
Unlisted investments, at cost	**1,509,561**	1,181,996
Provision for impairment #	**(44,750)**	(44,750)
	1,464,811	1,137,246

\# An impairment has been recognised for certain unlisted investments with a carrying amount of approximately RMB44,750,000 (before deducting the impairment loss) (2010: approximately RMB44,750,000) because these unlisted investments have recorded operating losses.

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

	Company	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**44,750**	31,001
Provision for impairment	**—**	42,000
Amount written off on disposal	**—**	(28,251)
At 31 December	**44,750**	44,750

The loans to subsidiaries of approximately RMB100,000,000 (2010: approximately RMB99,000,000) are granted in the form of designated deposits through a subsidiary, which is a financial institution, of the Company, are unsecured, bear interest at rates ranging from 4.86% to 5.31% (2010: 4.86% to 5.31%) per annum, and are repayable within one year.

Deposits placed with a subsidiary are deposits of approximately RMB575,245,000 (2010: approximately RMB401,748,000) placed by the Company in the subsidiary which is a financial institution.

Other balances with subsidiaries are included in Note 24, 25, 30 and 31 to the consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2011 and 2010, 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		
			2011	2010	**2011**	2010	
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
Luoyang Changlun Agricultural Machinery Company Limited ("Changlun") * # – *(Note (i))* 洛陽長侖農業機械有限公司	The PRC	RMB500,000	**–**	99	**–**	–	Trading of tractors
Yituo (Luoyang) Harvester Machinery Co., Ltd. * # 一拖(洛陽)收穫機械有限公司	The PRC	RMB49,295,000	**–**	–	**93.9**	93.9	Inactive
Luoyang Changhong High Technology Trading Company Limited * # 洛陽長宏工貿有限公司	The PRC	RMB3,000,000	**100**	100	**–**	–	Trading of tractors
YTO Group Finance Company Limited ("YTO Finance") * # – *(Note (xii))* 中國一拖集團財務有限責任公司	The PRC	RMB500,000,000	**87.8**	87.8	**4**	3.4	Provision of financial services
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") * # – *(Note (ii))* 一拖(洛陽)神通工程機械有限公司	The PRC	RMB13,000,000	**76**	50	**–**	–	Manufacture and sale of forklifts and mining trucks
Luoyang Changxing Agriculture Machinery Company Limited * # 洛陽長興農業機械有限公司	The PRC	RMB3,000,000	**70**	70	**30**	30	Trading of tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd. * # 一拖(洛陽)機具有限公司	The PRC	RMB10,000,000	**73**	73	**–**	–	Manufacture and sale of agricultural machinery and tools
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") * + 一拖(洛陽)柴油機有限公司	The PRC	RMB51,718,205	**58.8**	58.8	**22.5**	22.5	Manufacture and sale of diesel engines

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2011 and 2010, particulars of the principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct 2011	Direct 2010	Indirect 2011	Indirect 2010	Principal activities
Yituo (Luoyang) Fuel Injection Pump Co., Ltd. ("YLFIP") * # — *(Note (iii))* 一拖(洛陽)燃油噴射有限公司	The PRC	RMB94,114,000	**42.5**	52	**29.7**	36.3	Manufacture and sale of fuel injection pumps and fuel jets
Yituo (Luoyang) Power Machinery Co.,Limited * # 一拖(洛陽)動力機械有限公司	The PRC	RMB38,000,000	**42**	42	**40.7**	40.7	Manufacture and sale of diesel engines
Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM") * # — *(Note (iv))* 一拖(洛陽)搬運機械有限公司	The PRC	RMB55,880,000	**93.6**	93.6	**–**	–	Manufacture and sale of forklifts
Yituo (Luoyang) Forklift Trading Co., Ltd. ("YLFT") * # — *(Note(v))* 一拖(洛陽)叉車銷售有限公司	The PRC	RMB800,000	**–**	–	**–**	93.6	Sale of forklifts
YTO (Xinjiang) Dongfanghong Machining Co., Ltd. * # 一拖(新疆)東方紅裝備機械有限公司	The PRC	RMB100,000,000	**100**	100	**–**	–	Manufacture and sale of tractors, parts and components
China-Africa Machinery Corp. ("CAMACO") + 中非重工投資有限公司	The PRC	RMB250,000,000	**55**	55	**–**	–	Investment management, agency for importing and exporting goods and technology
YTO Heilongjiang Modern Agricultural Machinery Co., Ltd. ("Heilongjiang Modern") * # — *(Note (i))* 一拖黑龍江現代農業裝備有限公司	The PRC	RMB20,000,000	**–**	51	**–**	–	Manufacture and sale of tractors, parts and components
Cadfund Machinery (Pty) Ltd	South Africa	ZAR 0.1	**55**	55	**–**	–	Sale of agricultural and construction machinery
Luoyang Tractors Research Institute Co., Ltd. ("LTRI") * # — *(Note (vi))* 洛陽拖拉機研究所有限公司	The PRC	RMB185,000,000	**51**	51	**–**	–	Technology development and consultancy services for agricultural and construction machinery

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

As at 31 December 2011 and 2010, 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		
			2011	2010	**2011**	2010	
Shanghai Dragon (Group) Co., Ltd. ("Shanghai Dragon") * # — *(Note (vii))* 上海強農(集團)股份有限公司	The PRC	RMB81,000,000	**93.8**	93.8	**–**	–	Trading of agricultural machineries, and properties investment
YTO France SAS — *(Note (viii))*	France	EUR20,000,000	**100**	–	**–**	–	Manufacture and sale of powershift transmission system
YTO (Luoyang) Forklift Co., Limited ("YTO Forklift) * # — *(Note (ix))* 一拖(洛陽)叉車有限公司	The PRC	RMB17,600,000	**100**	–	**–**	–	Manufacture and sale of forklifts
YTO International Economic and Trading Co., Ltd. ("YTO International") * # — *(Note (ix))* 一拖國際經濟貿易有限公司	The PRC	RMB66,000,000	**100**	–	**–**	–	Sale of agricultural machinery and construction machinery
YITWO Agro-Industrial — *(Note (ix))*	Cote d'Ivoire	XOF270,660,000	**–**	–	**51.5**	–	Sale of agricultural machinery
Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") * # — *(Note (x))* 洛陽拖汽工程車輛科技有限公司	The PRC	RMB4,000,000	**–**	–	**51**	15.3	Provision of technology transfer and consultancy services
YTO Heilongjiang Agricultural Machinery Co., Ltd ("YTO Heilongjiang") * # — *(Note (xi))* 一拖黑龍江農業裝備有限公司	The PRC	RMB50,000,000	**100**	–	**–**	–	Manufacture and sale of tractors, parts and components

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Notes:

(i) During 2011, Changlun and Heilongjiang Modern were de-registered.

(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. During 2011, the Company acquired an additional 26% equity interest in YLST from non-controlling shareholders. The percentage of equity interest in YLST attributable to the Company increased to 76%. Please refer to Note 41(i) for details.

(iii) During 2011, the Holding made a capital injection to a non-wholly owned subsidiary YLFIP by land use rights with a fair value of RMB26,000,000. After the completion of the capital injection, the percentage of equity interest attributable to the Company decreased from 88.3% to 72.2%.

(iv) In 2010, the Company acquired a further 2.4% equity interest in YLTM from its non-controlling shareholders. Upon the completion of this further acquisition, the equity interest of YLTM attributable to the Company increased to 93.6%. Please refer to Note 41(iii) for details.

(v) YLFT is a wholly-owned subsidiary of YLTM. In 2010, upon the further acquisition of 2.4% equity interest in YLTM by the Company, the percentage of equity attributable indirectly to the Company increased from 91.2% to 93.6%. During 2011, YLFT was de-registered.

(vi) On 1 December 2010, the Company acquired a 51% equity interest in LTRI from the Holding. Please refer to Note 44(b) for details.

(vii) During 2010, the Company acquired a further 46.92% equity interest in Shanghai Dragon through Shanghai United Assets and Equity Exchange. After the acquisition, the Company held a 93.8% equity interest in Shanghai Dragon. Please refer to Note 42(ii) for details.

(viii) During 2011, a wholly-owned subsidiary, YTO Finance SAS, was incorporated in France.

(ix) During 2011, the Company and its non-wholly owned subsidiary, CAMACO, acquired 100%, 86.82% and 93.58% equity interests, in YTO International, YTO Forklift and YITWO Agro-Industrial from the Holding, respectively. Please refer to Note 44(a) for details. After completion of the above acquisition, the Company acquired a further 13.18% equity interest in YTO Forklift from its non-controlling shareholders, and YTO Forklift became a wholly-owned subsidiary of the Company. Please refer to Note 41(ii) for details.

(x) In 2011, a 51% owned subsidiary of the Group, LTRI, acquired a further 70% equity interest in Tuoqi Engineering. Please refer to Note 42(i) for details.

(xi) During 2011, a wholly-owned subsidiary, YTO Heilongjiang, was established in the PRC.

(xii) During 2011, the Company acquired 100% equity interests in YTO International. YTO International held 0.6% equity interests in YTO Finance. After the acquisition, the percentage of equity interest attributable to the Company increased from 91.2% to 91.8%.

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

\# Limited liability companies established in the PRC.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

20. INTERESTS IN ASSOCIATES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Unlisted shares, at cost	**—**	—	**71,000**	71,000
Share of net assets	**13,314**	15,121	**—**	—
	13,314	15,121	**71,000**	71,000
Provision for impairment	**—**	—	**(59,000)**	(59,000)
	13,314	15,121	**12,000**	12,000

The Group's deposits from associates are disclosed in Note 32 to the consolidated financial statements.

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

As at 31 December 2011 and 2010, particulars of the principal associates are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place of registration	Percentage of equity attributable to the Group: Direct 2011	Direct 2010	Indirect 2011	Indirect 2010	Principal activities
Luoyang First Motors Company Limited * 洛陽福賽特汽車股份有限公司	RMB200,000,000	The PRC	**29.5**	29.5	**–**	–	Design, manufacture and sale of vehicles and related accessories
YTO Shunxing (Luoyang) Spare Parts Co., Ltd.* 一拖順興(洛陽)零部件有限公司	RMB30,000,000	The PRC	**40**	40	**–**	–	Manufacture, sale and service of forged steel crankshafts
Luoyang I&C Technology Consulting Company Limited ("I&C Technology") * — *(Note (i))* 洛陽意中技術諮詢有限公司	RMB1,000,000	The PRC	**–**	–	**15.3**	15.3	Technology development, and consultancy services
Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") * — *(Note (i) & (ii))* 洛陽拖汽工程車輛科技有限公司	RMB4,000,000	The PRC	**–**	–	**51**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

20. INTERESTS IN ASSOCIATES *(CONTINUED)*

As at 31 December 2011 and 2010, particulars of the principal associates are as follows: *(Continued)*

Note:

(i) Since I&C Technology and Tuoqi Engineering are associates of a 51% owned subsidiary of the Group, LTRI, they are regarded as associates of the Group.

(ii) In 2011, the Group acquired an additional 70% interest in Tuoqi Engineering, and Tuoqi Engineering has become a non-wholly owned subsidiary of the Group. Please refer to note 42 for further details.

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

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

	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Assets	**38,863**	64,597
Liabilities	**5,485**	19,912
Revenue	**19,741**	71,968
Profits	**829**	6,314

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Listed equity investments in the PRC, at fair value	**99,306**	186,481	**39,424**	78,861
Unlisted equity investments, at cost	**105,527**	105,107	**26,883**	26,463
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	103,404	102,984	**24,760**	24,340
At 31 December	**202,710**	289,465	**64,184**	103,201
Portion classified as current assets	**(23,360)**	—	**(23,360)**	—
Non-current portion	**179,350**	289,465	**40,824**	103,201

During the year, the gross loss of the Group's available-for-sale financial assets recognised directly in equity amounted to approximately RMB44,991,000 (2010: gross loss of approximately RMB5,618,000).

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

As at 31 December 2011 and 2010, 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.

As at 31 December 2011, certain listed A shares had lock-up period restrictions up to July 2012 (2010: February 2011 to July 2012). The fair value of these restricted shares is estimated based on the quoted market price of the corresponding listed shares, adjusted for the impact of the restriction. The adjustment is made by reference to historical volatility of the respective shares and the restriction. The Group calculated the fair value for listed A shares with no disposal restriction based on the quoted market prices as at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

22. LOAN RECEIVABLES

	Group	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Analysis by nature:		
Loan borrowings, net	**479,769**	324,943
Discounted bills, net	**130,896**	122,384
Finance lease obligations, net	**95,060**	100,762
	705,725	548,089

		Gross amount	Provisions	Net
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Analysis by customer:				
2011				
Loans to the Holding	(i)	**50,000**	**500**	**49,500**
Loans to related companies	(ii)	**469,251**	**10,046**	**459,205**
Loans to customers	(iii)	**204,343**	**7,323**	**197,020**
		723,594	**17,869**	**705,725**
Portion classified as current assets		**(688,236)**	**(16,813)**	**(671,423)**
Non-current portion		**35,358**	**1,056**	**34,302**

22. LOAN RECEIVABLES *(CONTINUED)*

	Note	Gross amount	Provisions	Net
		RMB'000	*RMB'000*	*RMB'000*
		(Restated)	(Restated)	(Restated)
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

Notes:

(i) The loans to the Holding are granted by YTO Finance, and are unsecured, bear interest rates ranging from 4.67% to 5.08% (2010: 4.67%) per annum and repayable within one year (2010: one year).

(ii) The loans to these companies (fellow subsidiaries and associates of the Holding) are unsecured, bear interest at rates ranging from 4.42% to 7.11% (2010: 3.83% to 6.07%) per annum and repayable within one to two years (2010: three years).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

22. LOAN RECEIVABLES *(CONTINUED)*

The total minimum lease payments receivable under finance leases contracts, and their present values are as follows:

	Group			
	2011		2010	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
			(Restated)	(Restated)
Amount receivable:				
Within three months	**32,861**	**33,314**	30,242	30,574
Within one year but over three months	**63,785**	**67,294**	66,300	69,117
Within five years but over one year	**4,482**	**4,997**	10,605	11,533
	101,128	**105,605**	107,147	111,224
Unearned future income on finance lease	**—**	**(4,477)**	—	(4,077)
	101,128	**101,128**	107,147	107,147
Less: Impairment allowance	**(6,068)**		(6,385)	
Net amount of finance leases	**95,060**		100,762	

22. LOAN RECEIVABLES *(CONTINUED)*

The movements in impairment during the year are as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
At 1 January		
— As previously reported	**14,815**	13,152
— Business combination under common control	**—**	—
— As restated	**14,815**	13,152
Provision for impairment charged to the income statement, net *(Note 7)*	**3,054**	1,663
At 31 December	**17,869**	14,815

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	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Repayable:		
Within three months	**224,211**	200,690
Within one year but over three months	**464,025**	315,587
Within five years but over one year	**35,026**	46,167
Over five years	**332**	460
At 31 December	**723,594**	562,904

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

23. INVENTORIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Raw materials	**417,344**	224,364	**172,428**	120,147
Work in progress	**295,863**	357,594	**166,445**	230,709
Finished goods	**355,476**	781,429	**102,140**	505,587
Spare parts and consumables	**41,874**	13,448	**—**	13,437
	1,110,557	1,376,835	**441,013**	869,880

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately RMB9,755,600,000 (2010: approximately RMB8,577,581,000) (Note 7). Reversal of impairment on inventories recognised during the year, as included in 'cost of sales', amounted to approximately RMB6,896,000 (2010: provision for impairment on inventories of approximately RMB9,850,000) (Note 7).

24. TRADE AND BILL RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Bill receivables	**1,538,507**	969,718	**904,973**	383,521
Trade receivables	**934,183**	671,324	**809,915**	434,043
	2,472,690	1,641,042	**1,714,888**	817,564
Less: Impairment	**(81,471)**	(85,311)	**(41,148)**	(23,512)
	2,391,219	1,555,731	**1,673,740**	794,052

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	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within 90 days	**1,071,941**	990,569	**928,966**	458,486
91 days to 180 days	**1,222,207**	524,949	**648,043**	201,753
181 days to 365 days	**83,994**	31,067	**52,442**	44,636
1 to 2 years	**13,077**	9,146	**44,289**	89,177
	2,391,219	1,555,731	**1,673,740**	794,052

24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**82,546**	166,672	**23,512**	31,748
— Business combination under common control	**2,765**	4,979	**—**	—
— As restated	**85,311**	171,651	**23,512**	31,748
Impairment during the year *(Note 7)*	**18**	6,483	**20,067**	3,532
Amounts written off as uncollectible	**(3,858)**	(14,271)	**(2,431)**	(11,768)
Acquisition of subsidiaries	**—**	2	**—**	—
Disposal of subsidiaries	**—**	(78,554)	**—**	—
At 31 December	**81,471**	85,311	**41,148**	23,512

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	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Neither past due nor impaired	**2,294,148**	1,515,518	**1,577,009**	660,239
Less than six months past due	**83,994**	31,067	**52,442**	44,636
Over six months past due	**13,077**	9,146	**44,289**	89,177
	2,391,219	1,555,731	**1,673,740**	794,052

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 2011, certain of the Group's bill receivables of approximately RMB136,920,000 (2010: approximately RMB156,020,000) was pledged for the issuance of bill payables. The Company has not pledged its bill receivables for the year ended 31 December 2011 (2010: approximately RMB70,000,000).

At 31 December 2011, certain of the Group's bill receivables with an net carrying value of approximately RMB16,000,000 (2010: Nil), were pledged to secure borrowings granted to the Group.(Note 35(ii))

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from the Holding of approximately RMB78,000 (2010: approximately RMB747,000) and approximately RMB62,000 (2010: approximately RMB179,000), respectively. These balances are interest-free and are repayable on demand.

24. TRADE AND BILL RECEIVABLES *(CONTINUED)*

Included in the trade and bill receivables of the Group and the Company are unsecured trade receivables due from associates aggregating approximately RMB84,000 (2010: approximately RMB2,265,000) and approximately RMB84,000 (2010: approximately RMB2,259,000), 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 RMB8,494,000 (2010: approximately RMB77,630,000) and approximately RMB4,033,000 (2010: approximately RMB72,571,000), 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 RMB792,843,000 (2010: approximately RMB313,491,000). These balances are interest-free and are repayable on demand.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Prepayments, deposits and other debtors	**581,085**	762,035	**370,987**	566,708
Less: Impairment	**(8,783)**	(10,938)	**(6,552)**	(8,392)
	572,302	751,097	**364,435**	558,316

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**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**10,189**	11,823	**8,392**	8,189
— Business combination under common control	**749**	93	**—**	—
— As restated	**10,938**	11,916	**8,392**	8,189
Impairment during the year *(Note 7)*	**1,430**	5,179	**8**	3,820
Amounts written off as uncollectible	**(3,585)**	(3,359)	**(1,848)**	(3,617)
Disposal of subsidiaries	**—**	(2,798)	**—**	—
At 31 December	**8,783**	10,938	**6,552**	8,392

Included in other debtors of the Group and the Company are other unsecured receivables due from the Holding of approximately RMB2,160,000 (2010: approximately RMB2,987,000) and approximately RMB1,327,000 (2010: approximately RMB1,906,000), respectively. They are interest-free and are repayable in accordance with terms agreed.

Included in other debtors of the Group and the Company are other unsecured receivables due from related companies (fellow subsidiaries and associates of the Holding) of approximately RMB7,467,000 (2010: approximately RMB15,090,000) and approximately RMB2,405,000 (2010: approximately RMB15,038,000), respectively. They are interest-free and are repayable in accordance with terms agreed.

Included in prepayments, deposits and other debtors of the Company are unsecured amounts due from subsidiaries of approximately RMB33,668,000 (2010: approximately RMB45,171,000). They are interest-free and are repayable in accordance with terms agreed.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	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	**12,944**	4,857
— Others	**42,136**	1,728
	55,080	16,585
— Unlisted, in the PRC		
— Government	**—**	49,636
— The Holding	**—**	50,031
	—	99,667
— Equity securities		
— Listed in Hong Kong	**3,304**	9,331
— Listed in the PRC	**7,544**	53
	10,848	9,384
Financial assets designated at fair value through profit or loss		
— Funds and investments in trusts		
— Listed in the PRC	**11,470**	24,903
— Unlisted, in the PRC	**—**	101,455
	11,470	126,358
	77,398	251,994

The above financial assets at 31 December 2011 and 2010 were without any restriction on sale.

The debt securities bear interest at rates ranging from 0.5% to 5.7% (2010: 0.50% to 3.77%) per annum, with maturity periods between within 4 and 8 years (2010: 1 and 10 years).

27. HELD-TO-MATURITY FINANCIAL ASSETS

	Group	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
At amortised cost:		
Unlisted investments in trusts, in the PRC	—	1,000

28. PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	Group	
	2011	2010
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
		2011	2010	**2011**	2010
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
			(Restated)		
Cash and bank balances— *(Note(i))*		**1,116,289**	870,706	**50,081**	192,072
Mandatory reserve deposits with the PBOC — *(Note(ii))*		**174,302**	153,307	**—**	—
Time deposits — *(Note(iv))*		**221,834**	338,550	**97,100**	127,000
		1,512,425	1,362,563	**147,181**	319,072
Less: Pledged bank deposits for bill payables	31	**(100,466)**	(137,728)	**(75,000)**	(85,000)
Less: Pledged bank deposits for other banking facilities		**(22,868)**	(42,000)	**(22,100)**	(42,000)
Cash and cash equivalents in statement of financial position		**1,389,091**	1,182,835	**50,081**	192,072
Less: Mandatory reserve deposits with the PBOC— *(Note(ii))*		**(174,302)**	(153,307)		
Add: Pledged bank deposits for the issuance of bill payables — *(Note(iii))*		**100,466**	137,728		
Add: Pledged bank deposits for other banking facilities — *(Note(iii))*		**22,868**	42,000		
Cash and cash equivalents in the consolidated cash flow statement		**1,338,123**	1,209,256		

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

Notes:

(i) The balance included YTO Finance's deposits placed with the PBOC and other banks of approximately RMB383,744,000 (2010: approximately RMB276,229,000) and approximately RMB777,269,000 (2010: approximately RMB455,419,000), respectively.

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

(iii) As the bank balances were pledged for the Group's trade facilities for issuing bill 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	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Maturity within three months when acquired	**221,764**	338,550
Maturity within one year but over three months when acquired	**70**	—
	221,834	338,550

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 RMB23,629,000 (2010: approximately RMB8,536,000) and approximately RMB28,410,000 (2010: approximately RMB7,747,000), 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.

30. 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	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within 90 days	**903,803**	1,750,261	**1,060,188**	1,217,446
91 days to 180 days	**809,337**	156,674	**564,050**	45,236
181 days to 365 days	**407,261**	36,085	**21,417**	24,676
1 to 2 years	**38,372**	39,239	**12,399**	24,705
Over 2 years	**34,448**	44,605	**22,456**	26,998
	2,193,221	2,026,864	**1,680,510**	1,339,061

The Group's bill payables amounting to approximately RMB448,122,000 (2010: approximately RMB462,355,000) are secured by the pledge of certain of the Group's bank deposits amounting to approximately RMB100,466,000 (2010: approximately RMB137,728,000) (Note 29).

Included in the trade and bill payables of the Group and the Company are unsecured trade payables due to the Holding of approximately RMB22,335,000 (2010: approximately RMB50,487,000). The balances are interest-free and repayable on demand. There were no unsecured trade payables due to the Holding included in the trade and bill payables of the Company.

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 RMB13,001,000 (2010: approximately RMB5,983,000) and approximately RMB705,000 (2010: approximately RMB213,000), 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 RMB11,128,000 (2010: approximately RMB13,615,000).

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

31. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2011	2010	**2011**	2010
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
			(Restated)		
Accruals and other liabilities		**789,649**	966,893	**362,809**	455,550
Current portion of deferred income	37	**3,786**	3,786	**2,768**	2,768
		793,435	970,679	**365,577**	458,318

Included in other liabilities of the Group and the Company are amounts due to the Holding of approximately RMB287,466,000 (2010: approximately RMB83,325,000) and approximately RMB194,915,000 (2010: approximately RMB2,639,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Group and the Company are amounts due to related companies (fellow subsidiaries and associates of the Holding) of approximately RMB123,000 (2010: approximately RMB141,000) and approximately RMB122,000 (2010: approximately RMB141,000), respectively. These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

Included in other liabilities of the Group are amounts due to non-controlling interests of subsidiaries of the Group of approximately RMB3,063,000 (2010: approximately RMB4,194,000). 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 RMB80,510,000 (2010: approximately RMB189,270,000). These balances are unsecured, interest-free, denominated in Renminbi, and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

32. CUSTOMER DEPOSITS

	Group	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Deposits from the Holding	**737,730**	268,745
Deposits from associates	**4,204**	99
Deposits from fellow subsidiaries and associates of the Holding	**284,778**	228,521
Deposits from customers	**86,062**	43,055
	1,112,774	540,420

All of these balances are unsecured and bear interest at rates ranging from 0.5% to 3.31% (2010: 0.36% to 2.75%) 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	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Repayable:		
On demand	**960,344**	514,502
Within three months	**111,997**	8,888
Within one year but over three months	**40,433**	17,030
	1,112,774	540,420

33. REPURCHASE AGREEMENTS

As at 31 December 2010, certain debt securities classified as financial assets at fair value through profit or loss in Note 26, are held as collaterals for obtaining these repurchase agreements. The carrying amount of these debt securities was approximately RMB99,667,000.

The loans from these repurchase agreements were fully repaid in January 2011, and the loans borne interest rate at 5.50% per annum.

34. PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

As at 31 December 2011 and 2010, all placement counterparties of the Group are banks located in the PRC.

35. BORROWINGS

	Effective interest rate *(%)*	Maturity	Group 2011 *RMB'000*	Group 2010 *RMB'000* (Restated)	Company 2011 *RMB'000*	Company 2010 *RMB'000*
Current:						
Bank borrowings						
— Secured	4.84%–6.71%	2012	**14,400**	7,000	**—**	—
— Unsecured	1.88%–7.35%	2012	**955,068**	418,726	**1,278,467**	94,883
			969,468	425,726	**1,278,467**	94,883
Non-current:						
Other borrowings						
— Unsecured	5.13%–6.90%	2013–2015	**186,000**	600,000	**186,000**	600,000
			1,155,468	1,025,726	**1,464,467**	694,883
Analysed into:						
Borrowings repayable:						
Within one year and on demand			**969,468**	425,726	**1,278,467**	94,883
Between one to two years			**44,000**	600,000	**44,000**	600,000
Between two to three years			**44,000**	—	**44,000**	—
Between three to four years			**98,000**	—	**98,000**	—
			1,155,468	1,025,726	**1,464,467**	694,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

35. BORROWINGS *(CONTINUED)*

The borrowings of the Group and the Company as at 31 December 2011 and 2010 are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
RMB	**1,077,794**	958,975	**1,412,800**	640,000
US dollar	**66,631**	54,883	**51,667**	54,883
West African CFA franc	**11,043**	11,868	**—**	—
	1,155,468	1,025,726	**1,464,467**	694,883

Other interest rate information:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Fixed interest rate	**711,705**	985,726	**1,035,667**	654,883
Floating interest rate	**443,763**	40,000	**428,800**	40,000
	1,155,468	1,025,726	**1,464,467**	694,883

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

(i) a subsidiary's land use rights with an aggregate net carrying value of approximately RMB6,162,000 (2010: approximately RMB24,622,000) (Note 17);

(ii) a subsidiary's bill receivables with an aggregate net carrying value of approximately RMB16,000,000 (2010: Nil) (Note 24) .

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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36. PROVISIONS

Group

	Early retirement benefits *RMB'000* (Restated)	Product warranties *RMB'000* (Restated)	Total *RMB'000* (Restated)
2010			
At 1 January 2010			
— As previously reported	112,572	11,997	124,569
— Business combination under common control	2,123	—	2,123
— As restated	114,695	11,997	126,692
Provision for the year *(Note 7)*	26,144	107,059	133,203
Amounts utilised during the year	(28,017)	(71,165)	(99,182)
Disposal of subsidiaries *(Note 43)*	(12,960)	(1,000)	(13,960)
At 31 December 2010	99,862	46,891	146,753
Portion classified as current liabilities	(22,514)	(46,891)	(69,405)
Non-current portion	77,348	—	77,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

36. PROVISIONS *(CONTINUED)*

Group *(Continued)*

	Early retirement benefits RMB'000	Product warranties RMB'000	Total RMB'000
2011			
At 1 January 2011			
— As previously reported	**98,604**	**46,891**	**145,495**
— Business combination under common control	**1,258**	**—**	**1,258**
— As restated	**99,862**	**46,891**	**146,753**
(Reversal of)/provision for the year *(Note 7)*	**(10,888)**	**113,141**	**102,253**
Amounts utilised during the year	**(24,254)**	**(137,909)**	**(162,163)**
At 31 December 2011	**64,720**	**22,123**	**86,843**
Portion classified as current liabilities	**(21,716)**	**(22,123)**	**(43,839)**
Non-current portion	**43,004**	**—**	**43,004**

36. PROVISIONS *(CONTINUED)*

Company

	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
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

	Early retirement benefits *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
2011			
At 1 January 2011	**84,960**	**10,120**	**95,080**
(Reversal of)/provision for the year	**(9,862)**	**219**	**(9,643)**
Amounts utilised during the year	**(19,970)**	**(10,339)**	**(30,309)**
At 31 December 2011	**55,128**	**—**	**55,128**
Portion classified as current liabilities	**(18,413)**	**—**	**(18,413)**
Non-current portion	**36,715**	**—**	**36,715**

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 45 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

37. 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**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
At 1 January				
— As previously reported	**110,534**	119,383	**93,802**	100,361
— Business combination under common control	**—**	—	**—**	—
— As restated	**110,534**	119,383	**93,802**	100,361
Received during the year	**15,669**	14,869	**2,750**	5,317
Recognised as other income and gains during the year *(Note 6)*	**(10,689)**	(15,728)	**(2,768)**	(3,886)
Recognised as other comprehensive income *(Note 40(b))*	**—**	(7,990)	**—**	(7,990)
At 31 December	**115,514**	110,534	**93,784**	93,802
Current portion -included in other payables and accruals *(Note 31)*	**(3,786)**	(3,786)	**(2,768)**	(2,768)
Non-current portion	**111,728**	106,748	**91,016**	91,034

38. DEFERRED INCOME TAX

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

Deferred income tax liabilities

2010

	Group					Company
	Fair value adjustment on investment properties	Fair value adjustment on property, plant and equipment	Fair value adjustment on prepaid leases	Fair value changes of available-for-sale financial assets	Total	Fair value changes of available-for-sale financial assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
At 1 January 2010						
— As previously reported	—	—	—	13,109	13,109	12,487
— Business combination under common control	—	—	—	—	—	—
— As restated	—	—	—	13,109	13,109	12,487
Acquisition of subsidiaries *(Note 42)*	5,020	23	6,383	1,389	12,815	—
Deferred tax debited /(credited) to income statement during the year *(Note 11)*	(68)	(4)	(84)	332	176	—
Deferred tax debited/(credited) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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38. DEFERRED INCOME TAX *(CONTINUED)*

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

Deferred income tax liabilities *(Continued)*

2011

	Group					Company
	Fair value adjustment on investment properties	Fair value adjustment on property, plant and equipment	Fair value adjustment on prepaid leases	Fair value changes of available-for-sale financial assets	Total	Fair value changes of available-for-sale financial assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011						
— As previously reported	4,952	19	6,299	15,792	27,062	8,937
— Business combination under common control	—	—	—	—	—	—
— As restated	4,952	19	6,299	15,792	27,062	8,937
Deferred tax credited to income statement during the year *(Note 11)*	(185)	(5)	(180)	(332)	(702)	—
Deferred tax credited to other comprehensive income during the year *(Note 11)*	—	—	—	(11,230)	(11,230)	(5,375)
Gross deferred tax liabilities at 31 December 2011	4,767	14	6,119	4,230	15,130	3,562

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.

38. DEFERRED INCOME TAX *(CONTINUED)*

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

Deferred income tax assets

2010

	Group				
	Loss available for offset against future taxable profit	**Early retirement benefits**	**Fair value changes of available-for-sale financial assets**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
At 1 January 2010					
— As previously reported	—	13,331	—	45,912	59,243
— Business combination under common control	—	133	—	—	133
— As restated	—	13,464	—	45,912	59,376
Deferred income tax (debited)/credited to the income statement during the year *(Note 11)*	—	323	—	(20,874)	(20,551)
Deferred income tax assets at 31 December 2010	—	13,787	—	25,038	38,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

38. 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)*

2011

	Group				
	Loss available for offset against future taxable profit	**Early retirement benefits**	**Fair value changes of available-for-sale financial assets**	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011					
— As previously reported	—	13,641	—	25,038	38,679
— Business combination under common control	—	146	—	—	146
— As restated	—	13,787	—	25,038	38,825
Deferred income tax (debited)/credited to the income statement during the year *(Note 11)*	22,282	(4,897)	1,221	(16,739)	1,868
Deferred income tax credited to the other comprehensive income during the year *(Note 11)*	—	—	5,975	—	5,975
Deferred income tax assets at 31 December 2011	22,282	8,890	7,196	8,299	46,667

38. 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

	Company		
	Early retirement benefits	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	12,276	39,962	52,238
Deferred income tax credited/(debited) 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

2011

	Company		
	Early retirement benefits	**Other deductible temporary differences**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	**12,555**	**15,340**	**27,895**
Deferred income tax debited to the income statement during the year	**(4,429)**	**(14,433)**	**(18,862)**
Deferred income tax assets at 31 December 2011	**8,126**	**907**	**9,033**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

38. 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	
	2011	2010
	RMB'000	*RMB'000*
		(Restated)
Tax losses - PRC	**239,663**	202,750
Asset provision	**32,903**	194,742
Other deductible temporary differences	**1,517**	48,092
	274,083	445,584

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
For purpose of disclosure:				
Deferred income tax assets	**46,667**	38,825	**9,033**	27,895
Deferred income tax liabilities	**(15,130)**	(27,062)	**(3,561)**	(8,937)
Net book amount at 31 December	**31,537**	11,763	**5,472**	18,958

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.

39. SHARE CAPITAL

	Company	
	2011	2010
	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

40. 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 5 to 6 of the consolidated financial statements.

Capital reserve mainly comprised: (i) the excess/deficiency of the carrying amount of net assets over the purchase consideration for subsidiaries acquired under common control, (ii) deferred income recognised in equity pursuant to relevant regulations and guidance issued by the Ministry of Finance in the PRC, and (iii) the excess/deficiency of the considerations paid for/received from over the changes in the carrying amounts of non-controlling interests in the acquisitions of further interests in subsidiaries or disposal of part interests in subsidiaries, respectively.

In accordance with 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.

40. RESERVES *(CONTINUED)*

(a) Group *(Continued)*

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 RMB27,472,000 (2010: approximately RMB21,971,000).

During the year, no reserve fund (2010: Nil) and no enterprise expansion fund (2010: Nil), as dealt with in the Group's consolidated financial statements, were appropriated by the Company and its subsidiaries.

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 (2010: determined based on 1% of realised net profit for the year), to the general and statutory fund through its profit appropriation.

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

40. RESERVES *(CONTINUED)*

(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 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	37	—	—	—	—	7,990	—	7,990
Interim 2010 dividend declared	13	—	—	—	—	—	(101,508)	(101,508)
Proposed final 2010 dividend	13	—	—	—	—	—	(67,672)	(67,672)
Transfer to/(from) reserves		—	21,971	—	—	—	(21,971)	—
At 31 December 2010 and 1 January 2011		1,539,938	109,429	48,388	50,643	7,990	141,734	1,898,122
Profit for the year	12	—	—	—	—	—	274,423	274,423
Changes in fair values of available-for-sale financial assets		—	—	—	(30,461)	—	—	(30,461)
Transfer to/(from) reserves		—	27,472	—	—	—	(27,472)	—
At 31 December 2011		1,539,938	136,901	48,388	20,182	7,990	388,685	2,142,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

40. RESERVES *(CONTINUED)*

(b) Company *(Continued)*

During the year, the Company appropriations to the SSR amounted to approximately RMB27,472,000 (2010: approximately RMB21,971,000).

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

As at 31 December 2011, the Company has retained profits of approximately RMB388,685,000 (2010: approximately RMB141,734,000) available for distribution by way of cash or cash in kind.

As at 31 December 2011, in accordance with the Company Law of the PRC, an amount of approximately RMB1,539,938,000 (2010: approximately RMB1,539,938,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

41. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

In 2011, the Group acquired addition equity interest of two subsidiaries from independent third parties. These two subsidiaries' principal activities are manufacture and sale of forklifts and mining trucks.

(i) On 30 September 2011, the Company acquired an additional 26% equity interest in Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") for a purchase consideration of approximately RMB45. The carrying amount of the non-controlling interests (Net liability) in YLST on the date of acquisition was approximately RMB13,154,000. The Group recognised a decrease in non-controlling interests of approximately RMB3,420,000 and a decrease in equity attributable to equity holders of the Company of approximately RMB3,420,000. The effect of changes in the ownership interest of YLST on the equity attributable to owners of the Company during the year is summarised as follows:

	2011 ***RMB'000***
Carrying amount of non-controlling interests acquired	**(3,420)**
Consideration paid to non-controlling interests	**—**
Excess of consideration paid recognised in capital reserve within equity	**(3,420)**

41. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY *(CONTINUED)*

(ii) On 31 May 2011, the Company acquired an additional 13.18% equity interest in YTO Forklift for a purchase consideration of approximately RMB1,047,000. The carrying amount of the non-controlling interests in YTO Forklift on the date of acquisition was a deficit balance of approximately RMB917,000. The Group recognised a decrease in non-controlling interests of approximately RMB917,000 and a decrease in equity attributable to equity holders of the Company of approximately RMB1,964,000. The effect of changes in the ownership interest of YTO Forklift on the equity attributable to owners of the Company during the year is summarised as follows:

	2011
	RMB'000
Carrying amount of non-controlling interests acquired	**(917)**
Consideration paid to non-controlling interests	**(1,047)**
Excess of consideration paid recognised in capital reserve within equity	**(1,964)**

(iii) On 30 June 2010, the Company acquired an additional 2.4% equity interest in YLTM for a purchase consideration of approximately RMB1,138,000. The carrying amount of the non-controlling interests in YLTM on the date of acquisition was approximately RMB953,000. The Group recognised a decrease in non-controlling interests of approximately RMB953,000 and a decrease in equity attributable to equity holders of the company 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	953
Consideration paid to non-controlling interests	(1,138)
Excess of consideration paid recognised in capital reserve within equity	(185)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

42. ACQUISITION OF SUBSIDIARIES

(i) Acquisition in subsidiaries in the current year

On 1 October 2011, a 51% owned subsidiary of the Group, Luoyang Tractors Research Institute Co., Ltd ("LTRI") has acquired a further 70% equity interest in Luoyang Tuoqi Engineering Company Limited ("Tuoqi Engineering") for a consideration of approximately RMB2,800,000 from independent third parties. Prior to the acquisition, LTRI held 30% equity interest in Tuoqi Engineering. Tuoqi Engineering is principally engaged in the provision of technology development, transfer and consultancy services.

The acquisition was accounted for using the purchase method.

Net assets acquired in the transactions are as follows:

	Note	**2011** **Fair value** *RMB'000*
Net assets acquired:		
Property, plant and equipment	15	**374**
Inventories		**7,825**
Trade and bill receivables		**4,584**
Prepayments, deposits and other receivables		**285**
Cash and cash equivalents		**1,074**
Trade and bill payables		**(5,278)**
Other payables and accruals		**(983)**
Current income tax liabilities		**(34)**
Net assets acquired		**7,847**
Interest transferred from associates		**(2,354)**
Gain on bargain purchase	6,7	**(2,693)**
Total consideration		**2,800**
Satisfied by:		
Cash		**2,800**
Net cash outflow in respect of the net assets acquired:		
Cash consideration paid		**(2,800)**
Cash and bank balances acquired		**1,074**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries		**(1,726)**

42. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(i) Acquisition in subsidiaries in the current year *(Continued)*

Included in the revenue and profit for the year are approximately RMB7,748,000 and RMB429,000 attributable to the additional business generated by these new acquired subsidiaries.

Had these business combinations been effected on 1 January 2011, the revenue of the Group would be approximately RMB11,354,405,000, and profit for the year of the Group would be approximately RMB457,733,000. The directors of the Group consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and a reference point for comparison in future periods.

(ii) Acquisition in subsidiaries in the previous year

The Group entered into two agreements for the acquisition of four subsidiaries. They are Shanghai Dragon (Group) Co., Ltd, 上海乾農農機產品配售有限公司, 上海強農集團農業機械有限公司, which are principally engaged in the manufacturing and sales of agricultural machinery and Luoyang Xinyan Material Mechanical Engineering company Limited which is principally engaged in technology development, manufacturing and consultancy services for agricultural machinery such as tractors, for a total consideration of approximately RMB22,155,000.

The acquisitions were accounted for by the purchase method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 December 2011

42. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(ii) Acquisition in subsidiaries in the previous year *(Continued)*

Net assets acquired in the transactions are as follows:

	Note	2010 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	38	(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

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 Group consider these 'pro-formas' an approximate measure of the performance of the combined group on an annualised basis and a reference point for comparison in future periods.

43. DISPOSAL OF SUBSIDIARIES

In 2010, the Group entered into Equity Transfer Agreements with the Holding to dispose of four wholly owned subsidiaries, Yituo (Luoyang) Construction Machinery Co., Ltd, Yituo (Luoyang) Building Machinery Co., Ltd, Yituo (Luoyang) Building Construction Machinery Co., Ltd and Yituo (Luoyang) Construction Machinery Trading Co., Ltd for a consideration of approximately RMB272,839,000. The transaction was completed on 9 October 2010. 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:

	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 of:		
Cash consideration received		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. BUSINESS COMBINATION UNDER COMMON CONTROL

(a) Acquisition of interests in subsidiaries in the current period

In the reporting period, the Group acquired a 86.82% equity interest in YTO Forklift, which is principally engaged in manufacturing and sale of forklift, from the Holding at a consideration of approximately RMB6,896,000. In addition, the Group and its subsidiary CAMACO acquired 100% and 93.58% equity interests in YTO International and YITWO Agro-Industrial, respectively, from the Holding and its subsidiaries (the "Holding Group") at a consideration of approximately RMB81,393,000 and RMB5,002,000, respectively. The principal activities of YTO International and YITWO Agro-Industrial are sale of agricultural machinery and construction machinery. The financial statements of YTO Forklift, YTO International and YITWO Agro-Industrial are consolidated by the Group as the Group has control over operating and financial policies of these entities.

As mentioned in Note 2.1(a) to the consolidated financial statements, the Group has applied merger accounting as prescribed in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for business combination under common control. Accordingly, the above subsidiaries have been consolidated since 1 January 2010, the earliest financial period presented, as if the acquisition had been occurred at that time.

44. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

(a) Acquisition of interests in subsidiaries in the current period *(Continued)*

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2011, 2010 and 2009 is as follows:

2011

	The Group excluding YTO Forklift, YTO International and YITWO Agro-Industrial	YTO Forklift, YTO International and YITWO Agro-Industrial	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities				
Investment in a subsidiary	93,291	—	(93,291)	—
Other non-current assets	3,081,679	36,243	—	3,117,922
Cash and cash equivalents	1,366,371	42,862	(20,142)	1,389,091
Other current assets	4,850,550	152,875	(23,716)	4,979,709
Customer deposits	(1,132,916)	—	20,142	(1,112,774)
Other current liabilities	(4,116,620)	(149,594)	23,716	(4,242,498)
Other non-current liabilities	(344,819)	(11,043)	—	(355,862)
Net assets	3,797,536	71,343	(93,291)	3,775,588
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	87,286	(87,286)	845,900
Reserves	2,499,795	(15,943)	(6,252)	2,477,600
	3,345,695	71,343	(93,538)	3,323,500
Non-controlling interests	451,841	—	247	452,088
Total equity	3,797,536	71,343	(93,291)	3,775,588

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44. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

(a) Acquisition of interests in subsidiaries in the current period *(Continued)*

2010

	The Group excluding YTO Forklift, YTO International and YITWO Agro-Industrial	YTO Forklift, YTO International and YITWO Agro-Industrial	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Restated)
Assets and liabilities				
Other non-current assets	2,427,802	40,097	(5,392)	2,462,507
Cash and cash equivalents	1,162,162	31,460	(10,787)	1,182,835
Other current assets	4,876,630	199,222	(103,563)	4,972,289
Customer deposits	(551,207)	—	10,787	(540,420)
Other current liabilities	(3,627,164)	(198,424)	103,563	(3,722,025)
Other non-current liabilities	(809,900)	(1,258)	—	(811,158)
Nets assets	3,478,323	71,097	(5,392)	3,544,028
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	77,286	(77,286)	845,900
Reserves	2,169,376	(6,189)	75,021	2,238,208
Proposed final dividends	67,672	—	—	67,672
	3,082,948	71,097	(2,265)	3,151,780
Non-controlling interests	395,375	—	(3,127)	392,248
Total equity	3,478,323	71,097	(5,392)	3,544,028

44. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

(a) Acquisition of interests in subsidiaries in the current period *(Continued)*

2009

	The Group excluding YTO Forklift, YTO International and YITWO *RMB'000*	YTO Forklift, YTO International and YITWO Agro-Industrial *RMB'000*	Adjustments *RMB'000*	Consolidated *RMB'000* (Restated)
Assets and liabilities				
Other non-current assets	1,675,225	41,215	(4,893)	1,711,547
Cash and cash equivalents	929,060	39,298	(18,513)	949,845
Other current assets	3,422,874	175,418	(72,268)	3,526,024
Customer deposits	(280,736)	—	20,513	(260,223)
Other current liabilities	(2,490,614)	(199,806)	70,268	(2,620,152)
Other non-current liabilities	(216,906)	(15,596)	—	(232,502)
Nets assets	3,038,903	40,529	(4,893)	3,074,539
Equity				
Attributable to equity holders of the Company				
Issued/paid up capital	845,900	41,286	(41,286)	845,900
Reserves	1,858,841	(757)	39,116	1,897,200
Proposed final dividends	101,508	—	—	101,508
	2,806,249	40,529	(2,170)	2,844,608
Non-controlling interests	232,654	—	(2,723)	229,931
Total equity	3,038,903	40,529	(4,893)	3,074,539

44. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

(a) Acquisition of interests in subsidiaries in the current period *(Continued)*

The above adjustments represent adjustments to eliminate the paid-up capital of YTO Forklift, YTO International and YITWO Agro-Industrial against the Group's investment cost in YTO Forklift, YTO International and YITWO Agro-Industrial, the cash deposit in YTO Finance by YTO Forklift, YTO International and YITWO Agro-Industrial, and current accounts between the Group and YTO Forklift, YTO International and YITWO Agro-Industrial as at 31 December 2011, 2010 and 2009, respectively.

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 2010 is as follows:

	Impact on basic earnings per share *RMB*	**Impact on diluted earnings per share** *RMB*
Reported figures before restatement	64.12 cents	64.12 cents
Restatement arising from business combination of entities under common control	0.03 cents	0.03 cents
Restated	64.15 cents	64.15 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 2010 is as follows:

	Group Net profit *RMB'000*
Report figures before restatement	561,871
Restatement arising from business combination of entities under common control	178
Restated	562,049

44. BUSINESS COMBINATION UNDER COMMON CONTROL *(CONTINUED)*

(b) Acquisition of interests in subsidiaries in the previous year

On 3 August 2010, the Company entered into the Agreement on Acquisition of Equity Interests with the Holding to acquire a 51% equity interest in Luoyang Tractor Research Institute Co. Ltd. ("LTRI") from the Holding at a cash consideration of approximately RMB155,333,000. As both the Company and LTRI are under the common control of the Holding immediately before and after the acquisition, this transaction was accounted for as common control business combination, using merger accounting for all periods presented herein as if merger had been consummated since the inception of common control. In accordance with the requirements under merger accounting, the consolidated statement of comprehensive income for the year ended 31 December 2010 has been restated on an "as if" combined basis. As a consequence, total revenue and profit during the year period ended 31 December 2010 has been increased by approximately RMB31,983,000, and approximately RMB25,449,000, respectively.

45. 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% (2010: 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.

46. CONTINGENT LIABILITIES

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

Group

At 31 December 2011, the Group had not given any corporate guarantees to any banks for security credit facilities granted to the related companies (fellow subsidiaries and associates of the Holding) (2010: Nil).

46. CONTINGENT LIABILITIES *(CONTINUED)*

Company

At 31 December 2010, the Company had given corporate guarantees of approximately RMB10,000,000 (2010: approximately RMB33,500,000) and approximately RMB46,000,000 (2010: approximately RMB 11,000,000) to YTO Finance and certain banks, respectively, for security credit facilities granted to 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 RMB 56,000,000 (2010: approximately RMB45,000,000).

47. 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 30 and 35 to the consolidated financial statements, respectively.

48. COMMITMENTS

(a) Capital commitments

The Group and the Company had the following capital commitments as at the end of reporting period:

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Contracted, but not provided for:				
Purchase of plant and machinery	**132,149**	241,876	**120,892**	211,203
Authorised, but not contracted for:				
Purchase of plant and machinery	**1,415,200**	1,107,856	**852,829**	887,798
	1,547,349	1,349,732	**973,721**	1,099,001

48. COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments — as lessor

The Group leases out certain of its buildings (Note 15) under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within one year	**1,206**	593	**1,037**	424
In the second to fifth years, inclusive	**1,059**	810	**930**	681
	2,265	1,403	**1,967**	1,105

None of the leases includes contingent rentals for the years ended 31 December 2011 and 2010.

48. COMMITMENTS *(CONTINUED)*

(c) Operating lease commitment — as lessee

The Group leases certain land, buildings, plant and machinery under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to two years with renewal options, and those for plant and machinery are for terms of one year with renewal options.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Within one year	**9,881**	35,346	**3,579**	12,739
In the second to fifth years, inclusive	**—**	35,346	**—**	12,739
	9,881	70,692	**3,579**	25,478

None of the leases includes contingent rentals for the years ended 31 December 2011 and 2010.

49. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the Parent, which is a state-owned enterprise established in the PRC. The Parent itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (revised), "Related Party Disclosure", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include the Parent and its subsidiaries (other than the Group), other government-related entities and subsidiaries ("other stated-owned enterprises"), other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and the Parent as well as their close family members. For the purposes of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

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

49. 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:

	Note	**2011** **RMB'000**	2010 RMB'000 (Restated)
Sale of raw materials, finished goods and components	(i)	**171,739**	301,647
Purchases of raw materials and components	(ii)	**1,272,644**	1,235,465
Purchases of utilities	(iii)	**112,997**	110,665
Fees paid for welfare and support services	(iv)	**41,530**	36,910
Fees paid for transportation services	(iv)	**65,595**	59,472
Research and development expenses paid	(v)	**213**	22,545
Fees paid for the use of land	(vi)	**11,614**	25,465
Fees paid for the use of a trademark	(vii)	**15,548**	17,609
Rentals paid	(viii), (ix)	**4,458**	10,234
Rental income received in respect of buildings	(x)	**4,927**	5,431
Sale of plant and machinery	(xi)	**—**	2,458
Purchases of plant and machinery	(xi)	**47,048**	63,234
Purchases of land use rights	(xii)	**418,450**	—
Purchases of trademark	(xii)	**59,527**	—
Acquisition of subsidiaries	(xiii)	**93,291**	155,333
Disposal of subsidiaries	(xiii)	**—**	272,839
Interest income and discounted bill charges	(xiv)	**31,334**	27,122
Interest paid for customer deposits	(xv)	**3,932**	1,643
Research and development income received	(xvi)	**9,850**	7,123

49. 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:

(i) Pursuant to relevant agreements, the pricing in respect of the sale of raw materials, finished goods and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(ii) Pursuant to the relevant agreements, the pricing in respect of purchases of raw materials and components is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such raw materials or components, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iii) Pursuant to relevant agreements, the pricing in respect of purchases of utilities is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(iv) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(v) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2010: 0.2%) of the Company's net annual turnover, and non-routine research and development service fees are determined separately under mutually agreed terms.

(vi) Pursuant to the relevant agreements, the annual rental for the use of land is approximately RMB11,614,000 (2010: approximately RMB25,465,000) subject to a further land rental adjustment announced by the relevant state land administration authorities.

49. 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)

(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% (2010: 0.15% to 0.2%) of the Company's net annual turnover and 0.4% (2010: 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.

(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 purchases and sale of land use rights and trademark were conducted under mutually agreed terms. The land use rights and trademark transferred have been valued by independent professional valuers on market basis.

(xiii) The acquisition and disposal of subsidiaries were conducted under mutually agreed terms. Please refer to Note 44 and 43 respectively for more details.

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

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49. 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)

(xv) 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.

(xvi) Pursuant to relevant agreements, the pricing in respect of routine research and development services rendered is determined by reference to the state price (i.e., the mandatory price set in accordance with the relevant PRC regulations, where applicable); or, if there is no applicable state price for any such services, the market price or cost plus a percentage mark-up in the range of 10% to 30%, whichever is lower.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As the reporting date, the Holding has placed an aggregate amount of approximately RMB50,000,000 (2010:approximately RMB47,000,000) with YTO Finance to provide designated 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 Parent and its subsidiaries during the year

During the year, the Group sold raw materials, finished goods and components of approximately RMB44,425,000 (2010: approximately RMB68,209,000) and purchased raw materials and components of approximately RMB2,693,000 (2010:approximately RMB8,936,000) from the Parent 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 49(a)).

49. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Outstanding balances with related parties:

(i) Details of the Group's amounts due from/to the Holding, and the Group's loan to and deposits from the Holding as at the end of reporting period are disclosed in Note 22, 24, 25, 30, 31 and 32 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 32 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, 30, 31 and 32 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 31 to the consolidated financial statements.

(d) Significant transactions with other government-related entities

During the years ended 31 December 2011 and 2010, the Group's significant transactions with other state-owned enterprises (excluding the Parent and its subsidiaries) are a large portion of its sales of goods and purchases of raw materials, electricity, property, plant and equipment and services. In addition, substantially all restricted deposits, time deposits, cash and cash equivalents and borrowings as of 31 December 2011 and 2010 and the relevant interest earned or paid during the year are transacted with banks and other financial institutions controlled by the PRC government.

(e) Compensation of key management personnel of the Group

	2011	2010
	RMB'000	*RMB'000*
Short term employee benefits	**1,844**	1,343
Post-employment benefits	**238**	208
Total compensation paid to key management personnel	**2,082**	1,551

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

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50. SUBSEQUENT EVENTS

At the extraordinary general meeting and class meeting of the Company held on 15 August 2011, the resolution in relation to the refreshment of specific mandate for the Issue of A Shares was passed, for a period from 15 August 2011 to 14 August 2012. On 11 January 2012, the Public Offering Review Committee of the China Securities Regulatory Commission ("CSRC") approved the issue of A Shares of the Company. However the formal written approval of the CSRC has not yet been issued.

The Company has decided to allot and issue of not more than 150,000,000 A Shares. The final number of A Shares to be issued and the structure of the Issue of A Shares shall be subject to the approvals by the CSRC and the other relevant regulatory authorities in the PRC, and subject to adjustment (if any) by the Board as authorised by the Shareholders at the extraordinary general meetings and class meetings, and within the range approved by the CSRC having regard to the relevant circumstances. Upon completion of the A Share issue, the Company will apply for the listing of and permission to deal in the A Shares on the Shanghai Stock Exchange.

The proceeds obtained from the Issue of A Shares (after deducting the administrative costs in relation to the Issue of A Shares) shall be used to invest in the project on upgrading and improvement of the hi-powered agricultural diesel engines, the project on establishment of tractors assembly station(s) in Xinjiang, the project on enhancement of the core capability of new wheeled tractors and the project on upgrading, capacity-enhancement and improvement of the fuel injection system products. Details of the A Share issue were set out in the Notice of the Company dated 28 June 2010.