第一拖拉機股份有限公司
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 2005

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Wheel Loader

Tractor

Adjustment Innovation Advancement

Harvesting Machinery

Excavator

CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY

First Tractor Company Limited

REGISTERED ADDRESS

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

WEBSITE

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

BUSINESS REGISTRATION NUMBER

QGYZZ 003242

LEGAL REPRESENTATIVE OF THE COMPANY

Liu Dagong

COMPANY SECRETARY AND HEAD OF INVESTOR RELATIONS DEPARTMENT

Zhang Guolong

AUTHORISED REPRESENTATIVES

Zhang Jing
Zhang Guolong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Luoyang City Commercial Bank
Bank of Communications, Luoyang Branch
Construction Bank of China

INTERNATIONAL AUDITORS

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

LEGAL ADVISERS

PRC
Zhong Lun Law Firm
12/F., Block 01, China Merchants Building
No. 118 Jian Guo Road
Zhaoyang Region
Beijing City, the PRC
Postal Code: 100022

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

H SHARES LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 0038

H SHARES REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46/F., Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

ADDRESS FOR INQUIRIES

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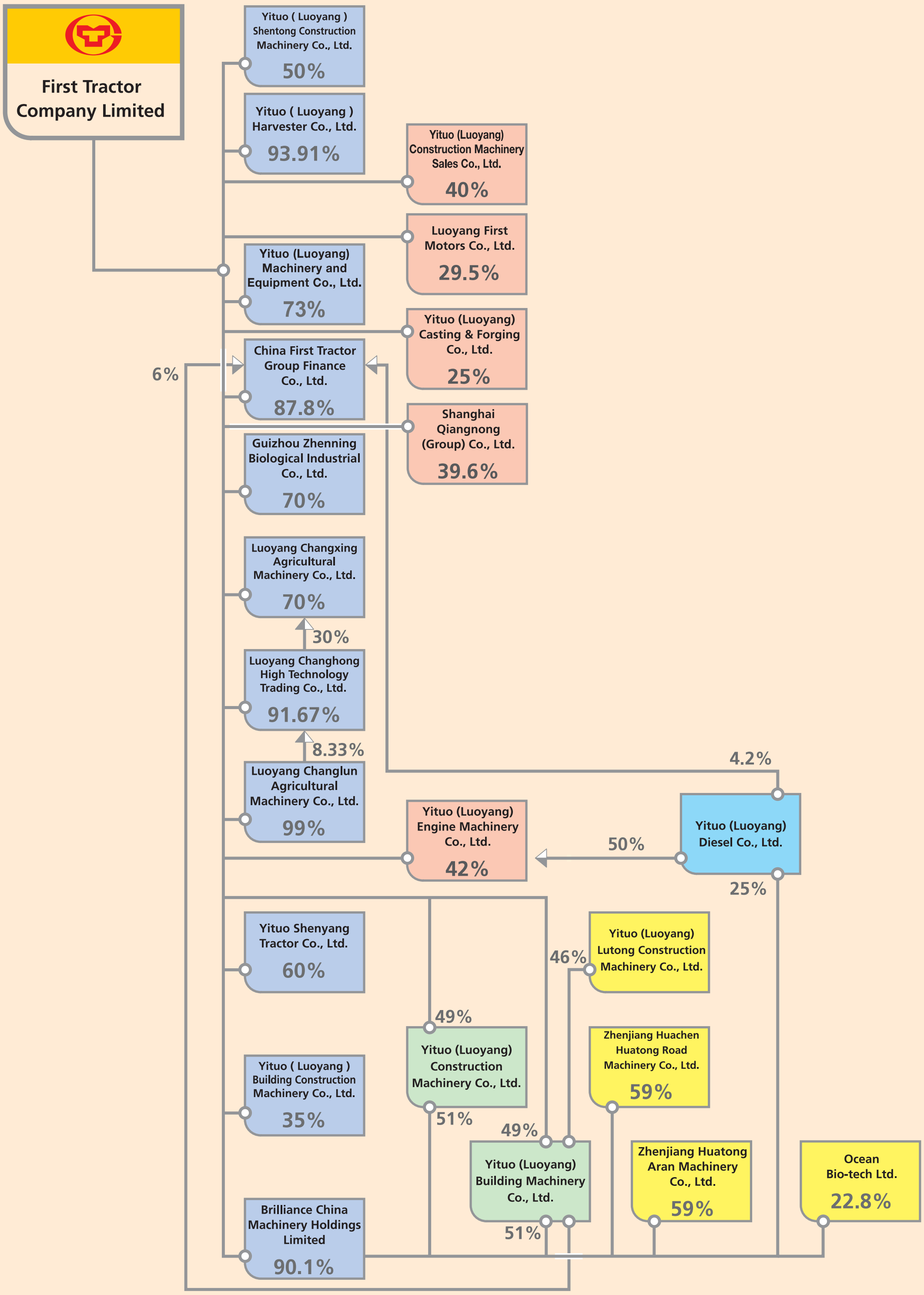
INVESTOR AND MEDIA RELATIONS

Wonderful Sky Public Relations and Financial Consultant Company Limited
Unit 3103, 31/F., Office Tower, Convention Plaza
1 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2851 1038
Fax: (852) 2815 1352

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
REVENUE	**4,765,828**	4,246,554
Finance costs	**(11,186)**	(9,719)
Share of profits and losses of associates	**(6,955)**	4,709
Negative goodwill on acquisition of an associate recognised as income during the year	**—**	606
PROFIT/(LOSS) BEFORE TAX	**(77,482)**	23,813
Tax	**17,183**	(13,953)
PROFIT/(LOSS) FOR THE YEAR	**(60,299)**	9,860
Attributable to:		
Equity holders of the parent	**(50,436)**	11,961
Minority interests	**(9,863)**	(2,101)
	(60,299)	9,860
DIVIDENDS	**—**	—
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	**(6.42) cents**	1.52 cents

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

Mr. Liu Dagong
Chairman of the Company

To shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of First Tractor Company Limited ("First Tractor" or the "Company") and its subsidiaries (collectively the "Group"), I announce to shareholders of the Company (the "Shareholders") that the Group recorded a turnover of RMB4,765,828,000 in 2005, representing a year-on-year increase of 12.23% and a loss attributable to equity holder of the Parent of RMB50,436,000, representing a decrease of 6.42 cents per share (the "Share") of the Company. I would also like to take this opportunity to express our sincere gratitude to the Shareholders and all walks of life who have given their kind supports to the Company's development.

BUSINESS REVIEW

Principal Business

During the reporting period, benefited from a notifiable increase in market demands, the agricultural machinery business, one of the Group's principal businesses, achieved remarkable operating results with a turnover of RMB3,751,521,000, representing a year-on-year increase of 22.44% from last year. Sales of large/medium wheeled tractors, harvest machinery and agricultural machinery increased substantially over last year, whereas operating results of the construction machinery business were unsatisfactory due to various factors with a turnover of RMB1,013,898,000 representing a decrease of 14.3% from last year. Sales of certain large construction machinery products including industrial bulldozers, pavers and mixers, incurred a year-on-year decrease of more than 30%.

Export business

During the reporting period, the Group recorded a turnover of US$21,553,600 from export business, increased by 48.71% over the same period last year. The Group exported 1,479 units of tractors, increasing by 94.6% over the same period last year, and 162 units of construction machinery, increasing by 54.28% over the same period last year. The said products were mainly exported to Asia, Africa, South America, North America, Oceania and Europe.

Research and development of new products

During the reporting period, in line with its product development philosophy "to optimise product mix", the Group took initiatives in research and development of new products based on the market responses and the changing customers' needs. Such new products mainly included "Dongfanghong" series tractors and harvest machinery, earthwork machinery, road construction machinery, maintenance machinery, as well as small loaders and excavators, some of which have launched into the market and received various approvals from dealers and users.

Corporate governance

— The Company took efforts to improve the corporate governance in strict compliance with (i) the relevant regulations and rules on corporate governance of listed companies promulgated by domestic and overseas regulatory authorities; and (ii) operated in accordance with the articles of association (the "Articles of Association") of the Company.

— The Company set up an audit committee (the "Audit Committee"), and a remuneration and review committee of the Board. In such special committees, independent non-executive Directors represented a majority and served as the chairman of such committee.

— While attending the meetings of the Board and the special committees, the independent non-executive Directors provided constructive opinions and recommendations in accordance with relevant laws and regulations and expressed their independent opinions, thus performing their duties with due diligence.

— Directors and senior management of the Company accepted the supervision of the supervisory committee of the Company in accordance with the Articles of Association of the Company. Supervisors (the "Supervisors") of the Company attended the Board meetings, and gave their opinions with respect to major decisions made by the Board when performing their supervisory duties.

BUSINESS OUTLOOK

In 2006, sticking to its business concept "to create value for customers", the Group will continue to achieve its long term strategic aim "to become an excellent manufacturer of agricultural machinery and construction machinery in the PRC" by making itself as a domestically advanced and internationally well-known manufacturing base for agricultural machinery and construction machinery.

CHAIRMAN'S STATEMENT

Year 2006 is the opening year of the "State's Eleventh Five-Year Plan" as well as in the process of constructing a new socialist countryside. As one of the largest enterprise for manufacturing agricultural and construction machinery in the PRC, it is an important mission for the company to provide agricultural machinery with good-quality for the new countryside establishment in China. As a result, the Group has set and activated "China Yituo New Countryside Construction Action Plan", in order to provide suitable, advanced, affordable, usable technology and agricultural and construction products that is cater to the agricultural and scientific development for the general users, and to support the upgrade of the agricultural industry. By implementation the idea of independence and innovation, reinforcement of technical upgrade and technical correction, upgrading the level and ability of manufacturing, enhancement of innovative operation, improving brands operation, and by transforming economic growth mode and improving its business operations, the Group aims to promote its comprehensive business capacity and operating results to accomplish its business targets in 2006

1. Grasping opportunities to sustain the fast growth of agricultural machinery business

Crawler tractors: based on the crawler machinery technology, the Group will optimise product mix and constantly improve product performance, enhance crawler machinery technology, develop simple machinery products towards the integration of mechanical, electrical and hydraulic technology, to maintain the leading position of its crawler tractor technology in the PRC and join into the international advanced crawler tractor technology.

Large/medium wheeled tractors (Note 1): capturing the new opportunities from the fast growing agricultural industry and countryside and driven by market demands, the Group will speed up technology renovations for large/medium wheeled tractors, expand production capacity and carry out differential competition to win more market share with quality and service. Thereby, the Group wishes to maintain its market competitive advantage and leading position in the industry.

Small wheeled tractors (Note 2): faced with the violent market competition, the Group will improve its service and shape branding concept through control over first-grade sales channels and construction of county and town sales networks. Meanwhile, it will develop new products according to the findings from market sub-division to optimise and adjust product mix, hence addressing the changing market demands. Value analysis will be carried out to further cut down the manufacturing cost, and hence improving the products' competitiveness.

Agricultural machinery: for harvest machinery products, the Group will develop high end products to satisfy the market demands through cooperation and digesting international advanced technology. Capitalising the "Dongfanghong" brand and its competitive advantage in the large/medium wheeled tractors market, the Group will speed up the development of agricultural machinery business including farm management machinery, round bander, film packager, double shaft stubble-cleaning rotary cultivator and straw threshers, aiming at gaining more market share.

Note 1: it is an industry's practice to define tractors with power ranging from 18.4KW (25 HP) - 58.5KW (80 HP) as medium tractors and tractors with power over 58.5KW as large tractors.

Note 2: it is an industry's practice to define tractors with power of below 18.4KW (25 HP) as small tractors.

2. Taking measures to improve operating results of construction machinery business

In line with the government's policies and the industry's development, the Group's construction machinery will set a foothold on business areas including road construction, shoveling and moving, transportation, pavement and small construction machinery to upgrade the position and brand recognition of its construction machinery products in each industry.

— Under an integrated strategic layout of the Group, each subsidiaries will determine the direction for the adjustment to its product mix and operating strategies according to its own characteristics and strengths;

— Research and development of new construction and maintenance machinery products will be enhanced to address the growing demands from the national road construction and the town transportation construction. Earthwork operating machinery and small construction machinery facilitate irrigation construction projects, medium/small projects, building of new socialite countryside and development of small towns to explore markets and enter new perspective.


Grader

Excavator

— Making use of its marketing resource advantages, the Group will unify its sales and service modes to form interactive, complementary and integrated marketing channels for improved network distribution capability.

— The Group will establish complete customer records, promote the credit sales mode and standardise the appraisal system for choosing distributors, to breed strategic alliance and improve its brand force.

3. Strengthening the international market exploration with a more reasonable export structure for more international communication

In 2006, the Group will set up a strategic co-operative platform with overseas corporations, suppliers and distributors, facilitate technical exchange and strategic alliance, and put more efforts in advertising, creation of mutual benefit for win-win and optimization of the product mix so as to increase profit from export.

— The Group will open up more cooperation, facilitate technical exchange and reinforce technical improvement of agricultural and construction products.

— The Group will reinforce the cooperation of the supply chain, lengthen the industrial chain and implement strategic alliance with the suppliers and distributors.

— In optimizing the export structure, the Group will maintain the large wheeled tractors export, while stress is laid on such emerging businesses as medium wheeled tractors and small construction machinery.

— The Group will proactively advance its joint venture with internationally renowned corporations while introducing modern operating concepts, advanced technologies and capital from the international world to strengthen its competitiveness and international influence.

— The Group aims to promote international recognition of "Dongfanghong" brand with increased propaganda by participating in international exhibitions.

— strengthen construction of international sales networks and speed up establishment of offices in East European, Central Asia and South America.

4. In line with the principle of "advancement, assets optimization and emphasis identification" and the business needs and strategic targets, the Group will continue to reorganise and integrate its resources and businesses and strengthen the capital operation and strategic alliance to improve its operations and increase the return on investment.

5. Promoting transformation of economic growth mode by improving economic operations.

With return on investment as the focus, cash management as the core and management innovation as the base, the Group will set up an efficient performance appraisal system to enhance the management on its investment, financing, manufacturing, marketing and cost for better economic operations, hence facilitating the transformation of economic growth mode.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
21 April 2006

ANALYSIS OF FINANCIAL RESULTS

For the year ended 31 December 2005, the Group recorded a turnover of RMB4,765,828,000, representing an increase of 12.2% over the same period last year. Loss for the year attributable to equity holders of the parent amounted to RMB50,436,000. Gross profit margin was basically the same as the same period last year.

The decrease in profit was mainly attributable to:

1. A loss in construction machinery business as a result of a year-on-year considerable reduction in sales volume of the Group's large construction machinery products;

2. Operating loss of the Group's certain associates

The management of the Group will strengthen assets and capital management, reduce accounts receivable and inventories, lower the cost of manufacturing and open up new markets, so as to cater for the significantly changing demands for agricultural and construction due to construction of a new countryside, new opportunities and increasing product sales, in order to promote the operating results of 2006.

The Group's turnover by business classification for 2004 - 2005

	Year Ended		
Classification by business	**31 December 2005** ***RMB'000***	31 December 2004 *RMB'000*	Increase / decrease *(+/-)*
Agricultural machinery business	**3,751,521**	3,064,060	+22.44%
Construction machinery business	**1,013,898**	1,182,482	-14.3%
Others	**409**	12	+33.08 times
Total	**4,765,828**	4,246,554	+12.23%

Note: The business segment for turnover was changed to four categories in 2005 from six categories in 2004, details of which are set out in notes 2.4 and 4 to the financial statements.

1. Analysis of Sales Volume of Agricultural Machinery Products

During the reporting period, the Group sold 166,053 units of agricultural machinery in various types, of which:

— the sales volume of large / medium wheeled tractors was 28,388 units, increased by 81.50% over the same period last year;

— the sales volume of small wheeled tractors was 131,200 units, decreased by 9.37% over the same period last year;

— the sales volume of harvesters was 2,319 units, increasing by 30.80% over the same period last year;

— the sales volume of agricultural machinery was 4,146 sets / units, increasing by 89.40% over the same period last year;

The year-on-year increase in sales volume of the Group's agricultural machinery products including large and medium wheeled tractors, harvesters, and agricultural machinery was mainly due to: (1) the relative improvement in farmers' grain revenue by virtues of such policies as the State's exemption and cancellation of agricultural tax and the grain direct subsidy; (2) the increasing market demand as stimulated by the central and local governments' subsidies for purchasing large and medium wheeled tractors and agricultural machinery; (3) achievement on the effective results from the Group's adoption of flexible marketing portfolio, upgrade of old products, launch of new products and improvement of after-sales services.

2. Analysis of Sales Volume of Construction Machinery Business

During the reporting period, the Group sold 9,180 units of construction machinery products in various types, of which:

— the sales volume of road construction machinery was 2,316 units, decreasing by 9.25% over the same period last year;

— the sales volume of shovelling and moving machinery was 1,359 units, decreasing by 21.90% over the same period last year;

— the sales volume of maintenance machinery was 49 units, increasing by 4.26% over the same period last year;

— the sales volume of small construction machinery was 5,456 units, decreasing by 58.65% over the same period last year;

The decline in operating results of the Group's large construction machinery was mainly attributable to: the decrease in the construction business and earthwork construction and the insufficient demand for construction machinery because of the low confidence of potential purchasers of construction machinery as affected by the continuation of the State's Macro-economic control. However, with weak growth in the industry demand, the Group's subsidiaries for manufacturing large construction machinery lacked of the ability and measures to address the market change, had insufficient ability of controlling cost and failure in promotion for sales, resulting in the decline in operating results of the Group's large construction machinery.

CAPITAL LIQUIDITY AND FINANCIAL ANALYSIS

The detailed table of the Group's major current assets

	31 December 2005 *RMB'000*	31 December 2004 *RMB'000*	Increase/ decrease (+ / -)
Cash and bank deposits	**663,553**	466,643	+42.2%
Trade and bills receivables	**448,641**	490,690	-8.6%
Inventories	**755,227**	865,110	-12.7%

The cash and bank deposits of the Group increased approximately RM196,910,000 in 2005, which was mainly due to the decrease in the trade receivable and inventories of the Group when compared with last year, together with a decrease in the use of capital, resulting in an increase in cash and bank deposit.

The trade receivable and inventories of the Group reduced 8% and 12% respectively in 2005, which mainly due to the implementation of a series of measures to reduce the trade receivable and inventories by the Group.

As at 31 December 2005, the short term bank loans of the Group was RMB172,250,000, representing an increase of RMB75,590,000 from 2004, whereas the long term bank loan of the Group was RMB1,000,000 (2004: Nil).

For further details on the borrowings of the Company, please refer to note 32 to the financial statements.

Disposal of subsidiary

During the reporting period, the Company entered into an agreement on 25 October 2005 with China Yituo Group Corporation Limited ("China Yituo") for disposing its 65% of the equity interests in Yituo (Luoyang) Standard Component Company Limited ("YLSC") at the consideration of approximately RMB5.65 million. For further details, please refer to the paragraph headed "Connected Transactions" in the Report of the Directors of this annual report.

Investments income

During the reporting period, Yituo (Luoyang) Diesel Co., Ltd. and First Tractor Ningbo C.S.I. Tractor & Automobile Corp. Ltd. ("NCSIT") (associates of the Group) contributed profits to the Company.

Other associates of the Group, Yituo (Luoyang) Casting and Forging Company Limited and Luoyang First Motors Company Limited incurred loss for the Group. The Company believed that the operating results of these associates will be improved continuously due to the improvement in the management standard and the quality of the products.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics

Items	Basis of calculation	31 December 2005	31 December 2004
Gearing ratio	Total liabilities/total assets x 100%	**43.02%**	38.71%
Current ratio	Current assets/current liabilities	**1.52**	1.66
Quick ratio	(Current assets - inventories)/current liabilities	**1.06**	1.05
Debt equity ratio	Total liabilities/Shareholders' equity(note) x 100%	**80.96%**	68.02%

Note : Exclusive of minority interests.

Analysis of Equity and Reserves

Items	31 December 2005 *RMB'000*	31 December 2004 *RMB'000*	Increase/ (decrease) *RMB'000*
Share capital	**785,000**	785,000	—
Share premium account	**1,378,840**	1,378,840	—
Statutory surplus reserve	**68,817**	65,597	3,220
Statutory public welfare fund	**64,744**	63,171	1,573
Reserve fund	**2,525**	2,398	127
Enterprise expansion fund	**2,153**	2,974	(821)
General and statutory reserve	**2,217**	—	2,217
Exchange fluctuation reserve	**(1,357)**	—	(1,357)
Accumulated losses	**(272,020)**	(220,849)	(51,171)

PLAN FOR SIGNIFICANT INVESTMENT AND ACQUISITION OF CAPITAL ASSETS OF THE GROUP IN FUTURE

There was no plan for significant investment and acquisition of capital assets of the Group in 2006. There was no significant investment held in 2005.

EXCHANGE RATE RISK MANAGEMENT

The Group manages its foreign exchange revenue and expenditure in accordance with the relevant laws and regulations about foreign exchange issued by the State, and has established internal foreign exchange flows with cash balances usually deposited with financial institutions in the form of deposits. As the Group carries out its day-to-day business activities mainly in the PRC, a large amount of capital income and expenditure is principally denominated in Renminbi, with a small amount of expenditure being denominated in Hong Kong dollars. The Group's foreign exchange debt is mainly applied to the payment of commissions outside the PRC. Bank loans required for the Group's operating activities and technological renovation were borrowed in Renminbi and such loans can be repaid out of the income received in Renminbi. Therefore, the movement in exchange rate has minor impact on the Group's operating results

As at 31 December 2005, there was no pledge of any deposit of foreign currency of the Group.

PLEDGE OF ASSETS

As at 31 December 2005, the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB18,806,000 (2004: RMB27,147,000) were pledged to banks for securing certain short term bank loans granted to the Group.

In addition, the Group's deposits and bills receivable amounting to approximately RMB121,124,000 (2004: RMB69,206,000) and RMB7,400,000 (2004: Nil), respectively, were pledged to banks for securing certain banking facilities (including issuance of bills payable) of the Group.

CONTINGENT LIABILITIES

As at 31 December 2005, China First Tractor Group Finance Company Limited ("FTGF"), acting as the second guarantor, had given guarantee to the extent of RMB52 million to a financial institution for securing the loans granted to Yituo (Luoyang) Fuel Jet Co. Ltd.

As at 31 December 2005, FTGF, acting as the guarantor, had given guarantee to the extent of RMB100 million to a financial institution for securing the loans granted to China Yituo.

As at 31 December 2005, Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million to a bank for securing the loan granted to a related company of the minority shareholder of ZHHRM.

Details of contingent liabilities as at 31 December 2005 are set out in note 39 to the financial statements.

THE COMPANY'S STAFF AND TRAINING FOR STAFF

As at 31 December 2005, the Company had a total of 11,199 staff of whom 6,147 were production staff, 514 were engineering technicians, 152 were financial staff, 403 were administrative staff, and 3,983 were marketing and other staff.

In 2005, the Company conducted "training as required" in a number of ways. 15,703 in different areas were trained so that the professional quality of the staff was raised.

EXECUTIVE DIRECTORS

Mr. Liu Dagong, aged 51, joined the China First Tractor Group in 1975 (Note 3). Mr. Liu had been the researcher, supervisor and deputy general manager and general manager of China First Tractor Group. He joined the Company in 1997 and is currently the chairman of China Yituo and chairman of First Tractor Company Limited. He is also currently the chairman of Brilliance China Machinery Holdings Limited. Mr. Liu has rich experience in corporate management, personnel, human resources, labour management and staff training. Mr. Liu graduated from Zheng Zhou University in 1985 and then graduated from the postgraduate course on economic management in Henan Province Party College.

Note 3: means China Yituo Group Corporation Limited (formerly known as First Tractor Construction Machinery Company) and its subsidiaries.

Mr. Liu Wenying, aged 56, joined China First Tractor Group in 1975 and had been the deputy section chief, section chief, assistant to department deputy department head, head of accounting division, deputy chief economist, and deputy general manager. He joined the Company in 2000 and is currently the vice-chairman of China Yituo. He is also currently the chairman of China First Tractor Group Finance Company Limited. Mr. Liu has engaged in financial and economic management and has extensive experience in corporate financial operations and organisation management. Mr. Liu graduated from Henan Administrative College with postgraduate qualification in economic management and Dalian Polytechnic University with postgraduate qualification in management science and engineering. Mr. Liu holds the title of Senior Accountant.

Mr. Zhao Yanshui, aged 42. Mr. Zhao joined China First Tractor Group in 1983 where he had been a section head and deputy factory manager. He was also the deputy chief engineer and the deputy general manager of China Yituo and the executive deputy general manager of the Company. He joined the Company in 1997 and is currently the general manager of China Yituo and has been a Director of the Company since 1 July 2003. He is also currently the director of Brilliance China Machinery Holdings Limited. He has substantial experience in product development and design, and technical management. He studied at the University of Hokkaido and the University of Kyoto in Japan for a year as a visiting scholar in 1994 and 2001 respectively. He is currently the deputy governor of the Association of Construction Engineering Industry of China and the Association of Agriculture Machinery of China as well as a member of the 9th editorial board for the magazine Construction Machinery. He studied at the Agricultural Machinery Department of the Technical Institute of Jiangsu and was a postgraduate of the Technical Institute of Jiangsu. He was awarded with a bachelor's and a master's degree in engineering. He holds the title of Senior Engineer.

Mr. Yan Linjiao, aged 50, joined China First Tractor Group in 1982 where he had been the deputy workshop director and section chief. He had also been the deputy chief engineer and deputy general manger of Yituo (Luoyang) Diesel Company Limited and deputy chief engineer of China Yituo. He joined the Company in 2004 and is currently the general manager of the Company and the chairman of the board of Yituo (Luoyang) Building Machinery Company Limited, Yituo (Luoyang) Construction Machinery Company Limited and Yituo (Luoyang) Shentong Machinery Company Limited. He is also currently the director Brilliance China Machinery Holdings Limited. Mr. Yan is familiar with design and manufacture of machinery. He has rich experience in corporate management, production and operation. He studied in Luoyang Industry College, Xi'an Jiaotong University where he was awarded a bachelor's degree and a master's degree in engineering respectively. He holds the title of Senior Engineer.

PROFILES OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

Mr. Li Tengjiao, aged 49, was previously the deputy head of product development department of Luoyang Tractor Research Institute. He joined China First Tractor Group in 1995 and had been the deputy director of technology centre, deputy chief engineer of China First Tractor Group and the head of planning and development department of China Yituo. He is the deputy general manager of China Yituo, the supervisor of China Yituo Technical Center, and chairman of Luoyang Tractor Research Institute Company Limited. Mr. Li has extensive experience in production technology and management in business operation. He was awarded a master degree in Jiangsu University. He graduated from Jilin Industrial University with a bachelor degree in 1982. He holds the title of Senior Engineer. He joined the Company in 2000.

Mr. Shao Haichen, aged 50, joined China First Tractor Group in 1977 and had been the technician, section chief, deputy factory manager, factory manager and deputy general manager of China First Tractor Group. Mr. Shao had also been the assistant to the general manager, deputy general manager and general manager of the Company. Mr. Shao is currently the deputy general manager of China Yituo. Mr. Shao is experienced in technology, production and corporate management. Mr. Shao graduated form Luoyang Institute of Technology & Science in 1982 with a bachelor's degree. He was awarded with a master degree in Jiangsu University in 2003. He holds the title of Senior Engineer. He joined the Company in 1998.

Mr. Zhang Jing, aged 50, joined China First Tractor Group in 1975. He was the deputy head of collective economic management office of China First Tractor Group in 1994. He joined the Company in 1997 and is currently the deputy general manager of China Yituo and financial controller of China Yituo. He is also the chairman of Guizhou Zhenning Biological Industrial Company Limited, and the directors of Brilliance China Machinery Holdings Limited, China First Tractor Group Finance Company Limited, Yituo (Luoyang) Construction Machinery Company Limited and Yituo (Luoyang) Building Machinery Company Limited. Mr. Zhang has extensive experience in corporate financial management, economic and capital operations. Mr. Zhang graduated from School of Administration of Henan Television Broadcast University in 1985 and graduated from Class of Postgraduate of Jiangsu Polytechnic University. He holds the title of Senior Accountant.

Mr. Li Youji, aged 42, joined China First Tractor Group in 1983. Mr. Li has been the designer and deputy head of the China Yituo, the assistant to general manger, the deputy general manager, and the general manager of First Tractor International Economic Trade Limited. He is currently the assistant to the general manager of the China Yituo and the Chairman of Yituo International Economic and Trade Company Limited. Mr. Li has visited and worked in over 50 countries and has extensive experience in international trade and international market development. Mr. Li specialised in design and production of tractors at China Agricultural University and agricultural machinery at Jilin University, where he obtained his bachelor and master's degrees in engineering. In 2001, he spent a year conducting research at City University, London, United Kingdom as a visiting scholar. He holds the title of Senior Engineer. He joined the Company in 2004.

Mr. Liu Shuangcheng, aged 49, joined China First Tractor Group in 1975 and had been the committee member, workshop director, deputy factory manager, factory manager of the Company, and the factory manager of the Company's No.1 iron casting factory. He joined the Company in 1997 and is currently the general manager of Yituo (Luoyang) Construction Machinery Company Limited. He is also the director of Yituo (Luoyang) Construction Machinery Trading Company Limited. Mr. Liu graduated from Central Party College and majored in economic management. He has rich experience in corporate management, production and operation.

Mr. Zhao Fei, aged 42, joined China First Tractor Group in 1982. Mr. Zhao had been the section chief, deputy factory head, factory head and the head of production department of the Company, the head of production department of China Yituo. He joined the Company in 1997 and is currently the general manager of Yituo (Luoyang) Building Machinery Company Limited. He is also the director of Yituo (Luoyang) Construction Machinery Trading Company Limited. Mr. Zhao has extensive experience in corporate management and production operation. He majored in forging technology and equipment in Chongqing University and engineering management in Jiangsu University, where he obtained his bachelor degree in engineering and master's degree in engineering management. He holds the title of Senior Engineer.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Zhongmin, aged 73, an independent non-executive Director and a member of audit committee of the Company. He was the chairman of the board of directors of China First Tractor Group from 1992 to 1995. He was the chairman of China Association of Agricultural Machinery Manufacturers and a consultant of the Regional Network of Agricultural Machinery to the United Nations. He is also a professor of Jilin University of Technology and Jiangsu Science and Technology University. Mr. Lu graduated from Harrkov Institute of Technology with bachelor degree in 1959. He holds the title of Senior Engineer. He joined the Company in 1997.

Mr. Chan Sau Shan, aged 52, an independent non-executive Director and a member of audit committee of the Company. He was a director and head of the Corporate Finance Department of China Development Finance Company (Hong Kong) Limited, a wholly-owned subsidiary of Bank of China and an executive officer of International Finance Company Limited of Bank of China, where he was in charge of corporate finance, listing and mergers and acquisitions. He is currently the director and general manager of CCB International Finance Company Limited, a wholly-owned investment bank of China Construction Bank, where he is in charge of listing, acquisitions and mergers. Mr. Chan has 25 years of experience in banking and corporate finance. Mr. Chan received master's degree in business administration from the University of Windsor, Ontario, bachelor degree in arts from the University of Western Ontario and attended the Financial Management Program of Stanford University, USA. He joined the Company in 1997.

Mr. Chen Zhi, aged 50, an independent non-executive Director of the Company, joined China Agriculture Mechanisation Research Institute in 1982. He had been the deputy head of intelligence department, head and deputy head of finance management department and general manager of Beijing Hualian Electromechanical Co., Ltd. He is currently the head of the China Agriculture Mechanisation Research Institute. Mr. Chen has considerable experience in design and manufacture of agricultural machinery, science research, and financial, technology and scientific management in agricultural machinery. Mr. Chen graduated from Jilin Industrial University in 1982 with bachelor degree. He studied agricultural machinery at Milan University, Italy in 1991. He also obtained a master's degree of science management and engineering in June 2000 and a doctor's degree in agricultural machinery engineering in June 2004. He holds the title of Researcher and enjoys "Government's Special Subsidy" by the State Council. He joined the Company in 2000.

SUPERVISORS

Mr. Liu A Nan, aged 59, joined the China First Tractor Group in 1965. He was the deputy section chief, section chief, deputy department head, deputy chief accountant and chief accountant and deputy general manager of the China First Tractor Group. He is currently the chairman of the Supervisory Committee of the Company. He has considerable experience in management and operation of finance, accounting and auditing. He graduated from United Correspondence University of Economic Management in 1986 majored in enterprise management in 1986 and holds the title of Senior Accountant. He joined the Company in 1997.

Ms. Wang Aiying, aged 53, joined China First Tactor Group in 1971 and has been vice-chairman of labour union of the China First Tractor Group since 1990. She has been the chairman of the labour union of the Company since 1999. Madam Wang has extensive experience in propaganda, education and work of the labour union. She graduated from Central Party Correspondence College in 1996, majored in economic management and holds the title of Senior Political Work Engineer. He joined the Company in 1999.

Mr. Zhao Zhonghai, aged 49, joined the China First Tractor Group in 1980. He has been the head of the supervision department since 1995. He is currently the secretary to the Party Committee, the Secretary to the Disciplinary Committee and deputy general manager of Yituo (Luoyang) Fuel Jet Co. Ltd. Mr. Zhao has experience in administrative control. He joined the Company in 1997.

Mr. Xu Weilin, aged 43, joined China First Tractor Group in 1982. He has been the deputy head and the head of auditing department since 1998. He has experience in production and operation management and auditing of corporate finance. Mr. Xu graduated from Jiangsu Polytechnic University, majoring in industrial management and holds the title of Economist. He joined the Company in 2000.

Mr. Shao Jiangxin, aged 52, joined China First Tractor Group in 1973. He had been the technician, deputy supervisor, deputy section chief, supervisor, assistant to factory manager, deputy factory manager and factory manager of China First Tractor Group. Mr. Shao is currently the deputy manger of the Company's No.2 fabricating factory. Mr. Shao graduated from the postgraduate course of Henan Institute of Administration, majored in economic management, and holds the title of Engineer. He joined the Company in 1997.

COMPANY SECRETARY

Mr. Zhang Guolong, aged 41, joined China First Tractor Group in 1987 where he had been a deputy section chief and a secretary to the section chief. He had been a standing deputy general manager of a subsidiary of the Company. He is currently a secretary to the Board. He has experience in equipment maintenance and management, corporate management, capital utilisation, etc. Since 1998, he has been working with the secretariat of the Board on operation and management of foreign investment projects and disclosure of Company's information. He finished studies in equipment engineering and management at Jiangsu Technical College, and management of engineering at Xian Jiaotong University with a bachelor's degree in engineering and a master's degree in management science and engineering. He holds the title of Senior Engineer.

GENERAL MANAGER

Mr. Yan Linjiao, the general manager of the Company. For his details, please refer to page 21 of this annual report.

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

1. PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the production and sale of agricultural tractors. Details of the principal activities of the subsidiaries of the Company are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of financial affairs of the Company and the Group as at 31 December 2005 are set out in the financial statements on pages 68 to 166.

The Directors do not recommend the payment of any final dividend for the year of 2005.

3. 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, as extracted from the published audited financial statements with appropriate category, is set out below. This summary does not form part of the audited financial statements.

The financial summary has been prepared in accordance with Hong Kong accounting standards:

Consolidated results

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	4,765,828	4,246,554	3,277,297	2,300,223	1,863,824
Profit/(loss) before tax	(77,482)	23,813	54,666	(36,784)	(97,737)
Tax	17,183	(13,953)	(21,641)	(15,088)	(16,656)
Profit/(loss) before minority interests	(60,299)	9,860	33,025	(51,872)	(114,393)
Minority interests	9,863	2,101	(16,697)	(7,618)	(3,406)
Net profit/(loss) from ordinary activities attributable to equity holders of the parent	(50,436)	11,961	16,328	(59,490)	(117,799)

Consolidated assets, liabilities and minority interests

	As at 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	3,821,630	3,649,665	3,660,072	3,334,388	3,088,579
Total liabilities	(1,644,175)	(1,412,889)	(1,465,153)	(1,180,321)	(914,200)
Minority interests	(146,536)	(159,645)	(129,749)	(105,225)	(66,047)
Total equity attributable to equity holders of the parent	2,030,919	2,077,131	2,065,170	2,048,842	2,108,332

4. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

5. SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

There was no change in the registered or issued share capital of the Company during the reporting period.

During the year of 2005, the Company and its subsidiaries 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. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period.

8. RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35(b) to the financial statements, and in the consolidated statement of changes in equity, respectively.

9. DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2005 are set out in note 35 to the financial statements.

10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the five largest customers and suppliers of the Group respectively accounted for less than 30% of the total sales and purchases of the Group so far as the Directors are aware, none of the Directors, Supervisors, their associates or any Shareholder who owns more than 5% of the share capital of the Company had an interest in the major suppliers or customers of the Group.

11. DIRECTORS AND SUPERVISORS

During the year, the Directors and Supervisors of the Company are as follows:

Executive Directors:

Mr. Liu Dagong
Mr. Liu Wenying
Mr. Zhao Yanshui
Mr. Yan Linjiao
Mr. Li Tengjiao
Mr. Shao Haichen
Mr. Zhang Jing
Mr. Li Youji
Mr. Liu Shuangcheng
Mr. Zhao Fei

Independent non-executive Directors:

Mr. Lu Zhongmin
Mr. Chan Sau Shan
Mr. Chen Zhi

Supervisors:

Mr. Liu A Nan
Mr. Zhao Zhonghai
Mr. Xu Weilin
Ms. Wang Aiying
Mr. Shao Jiangxin

12. DIRECTORS', SUPERVISORS' AND THE GENERAL MANAGER'S BIOGRAPHIES

Biographical details of the Directors, Supervisors and the general manager of the Company are set out on pages 21 to 25 of the Annual Report.

13. SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS

Mr. Liu Dagong, Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Liu Shuangcheng, Mr. Liu A Nan, Mr. Zhao Zhong Hai, Mr. Xu Wei Lin, Ms. Wang Ai Ying and Mr. Shao Jian Xin entered into service contract with the Company on 30 June 2003. Mr. Yan Linjiao entered into a service contract with the Company on 28 October 2004. Mr. Li Youji and Mr. Zhao Fei entered into a service contract with the Company on 28 October 2004. These service contracts are the same in all material respects, details of which are set out as below:

(i) Each service contract commences from the date of contract to 30 June 2006.

(ii) The total annual salaries payable to each of the executive Directors each year for the three years term will be RMB40,000, RMB44,000 and RMB48,400 respectively; and

(iii) Furthermore, each executive Director or Supervisor is entitled to a bonus upon completion of each full year of service. The bonuses payable to each of the executive Directors each year for the three years term will not be more than RMB20,000, RMB22,000 and RMB24,200 respectively. The bonuses payable to each of the Supervisors each year for the three years term will not be more than RMB12,000, RMB13,200 and RMB14,520 respectively.

Save as 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.

The Company has received the annual confirmation letter issued by all independent non-executive Directors in respect of their independence in accordance with Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers that all of the independent non-executive Directors are independent.

14. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year, no Director or Supervisor had a material interest or any other interest (either directly or indirectly) in any contract of significance or any other contract to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

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

As at 31 December 2005, save as disclosed below, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of 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 pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Name	**Name of associated corporation**	**Capacity**	**Registered capital held** *(Note 2)*	**Approximate percentage in the entire registered capital of the associated corporation**
Yan Linjiao (Director)	Yituo (Luoyang) Lutong Construction Machinery Co., Ltd.("Lutong Company") *(Note 1)*	Beneficial owner	RMB290,000 (L)	0.5%

Notes:

1. Lutong Company is a limited company established in the PRC. Its total registered capital is RMB 58,000,000. Mr Yan Linjiao contributed RMB 290,000 to the total registered capital of Lutong Company and therefore holding 0.5% of the total registered capital of Lutong Company.

2. The letter "L" represents the person's long position in the registered capital of the associated corporation.

16. CONTRACTS OF SIGNIFICANCE

None of the Company or any of its subsidiaries has entered into any contract of significance, other than those as disclosed in the paragraph headed "connected transactions", with the controlling Shareholder of the Company at or any of its subsidiaries any time during the year ended 31 December 2005.

17. CHANGE IN SHAREHOLDING AND STRUCTURE OF EQUITY INTERESTS OF SHAREHOLDERS

As at 31 December 2005, the total issued Shares amounted to 785,000,000 Shares. Its structure of equity interests was as follows:

Type of Shares	Number of Shares	Percentage(%)
(1) Non-circulating state-owned legal-person Shares (the "Domestic Shares")	450,000,000	57.32
(2) Circulating Shares listed in the Stock Exchange (the "H Shares")	335,000,000	42.68
Total number of Share	785,000,000	100.00

18. SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following shareholders (the "Shareholders") (other than a Director, Supervisor or chief executive of the Company) of the Company have interests or short positions in the shares and underlying shares in 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	Nature of interes	Number of Shares *(Note 1)*	Approximate percentage of the total issued H Shares of the Company
China Yituo	Beneficial owner	450,000,000(L)	57.32%

H Shares

Name of Shareholder	Nature of interes	Number of Shares *(Note 1)*	Approximate percentage of the total issued H Shares of the Company
GE Asset Management Incorporated	Investment manager	22,991,788(L)	6.86%

Notes:

1. The letter "L" represents the entities' long position in the shares of the Company.

2. According to the Corporate Substantial Shareholder Notice submitted by State Street Corporation to the Company dated 23 September 2005, State Street Corporation is the holding company of an approved lending agent and 15,639,756 H Shares are held in a lending pool.

Save as disclosed, there is no other person (other than a Director, Supervisor or chief executive of the Company) who, as at 31 December 2005, had an interest or a 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.

On the basis of published information and to the best knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

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

At no time during the year were any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors, Supervisors, or their respective spouse or minor children, or were any rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

20. CONNECTED TRANSACTIONS

The Company and China Yituo (a controlling Shareholder of the Company) had entered into four continuing connected transactions such as Yituo Supply Agreement, Group Supply Agreement, Composite Service Agreement and Energy Supply Services Agreement for a term of three years and had entered into the Import and Export Agency Agreement for a term of three years with Yituo International Economic and Trade Company Limited ("Yituo Trade"), the subsidiary of China First Tractor Group, on 19 August 2004. The Company had made disclosures pursuant to the relevant provision under the Listing Rules. As at 28 October 2004, the aforesaid five agreements of continuing connected transactions and new caps related the connected transactions were approved by the Shareholder at the extraordinary general meeting of the Company on 28 October 2004.

Details of the above Group's continuing connected transaction are set out in note 43 to the financial statements.

After reviewing the above current year's continuing connected transactions, the independent non-executive Directors confirmed that such continuing connected transactions were:

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

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

(3) entered into on terms that are fair and reasonable so far as the Shareholders are concerned.

After reviewing the above current year's continuing connected transactions, the auditors of the Company confirmed the matters stated in rule 14A.38 of the Listing Rules.

Save as the above continuing connected transactions, the Group also entered into the following connected transactions:

The Company entered into an agreement on 25 October 2005 with China Yituo, pursuant to which the Company transferred to China Yituo 65% of the equity interests in YLSC at the consideration of approximately RMB5.65 million (determined with reference to 65% of the appraised net asset value of YLSC as stated in the valuation report provided by Luoyang Tiancheng Certified Public Accountants Company Limited. The registered capital of YLSC amounts to RMB8,000,000.

Details of the Group's connected transactions are set out in note 43 to the financial statements of this annual report.

After reviewing the above current year's connected transactions, the independent non-executive Directors confirmed that such connected transactions were:

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

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

(3) entered into on terms that are fair and reasonable so far as the Shareholders are concerned.

After reviewing the above current year's connected transactions, the auditors of the Company confirmed the matters stated in rule 14A.38 of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with the Listing Rules for the above connected transactions.

21. APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

The Company raised approximately RMB1,615,500,000 (approximately HK$1,507,500,000) by the issue of 335,000,000 new H Shares under the initial public offering of the H Shares listed on the Stock Exchange on 23 June 1997 and two subsequent partial exercises of over-allotment option.

The proceeds, other than those amounting to RMB1,343,415,000 which have been used and disclosed in the previous annual reports of the Company, were also applied to the following purposes during the year:

— approximately RMB129,020,000 was continue to use for financing projects including large and medium wheeled tractors, 125MN hotdie forging, flexible line of gear shells and forklifts, construction of building for gear sub-factory and technological renovations thereof; and

— the remaining balance of the proceeds were used as additional working capital of the Company.

22. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

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

23. EMOLUMENT POLICY

As at 31 December 2005, the Company had 11,119 employees, and the total remuneration thereof amounted to RMB155,510,000, which is the sum of employee's salary for the reporting period. The pay levels of the employees are commensurate with their responsibilities, performance and contribution. The emolument policy of the employees of the Group is set up by the personnel department on the basis of their merit, qualification and competence.

Remuneration of the Company's executive Directors is subject to their positions, performance and contribution and is linked with the operating results of the Group.

24. STAFF QUARTER

As all staff quarters have been retained by the controlling Shareholder of the Company, the Company does not have any staff quarters to sell to its staff. Pursuant to its existing policy, the staff of the Company shall buy the staff quarters at their own expenses (including quarters retained by the controlling Shareholder of the Company).

25. HOUSING POLICY

Regarding the allocation of housing subsidies policy promulgated by the State, the Company currently does not have any plans or intention regarding the implementation of housing subsidies allocation policy. As such, the Company believes that the policy did not have any significant impact on the financial statements of the Company for the year of 2005.

26. STAFF'S BASIC MEDICAL INSURANCE

Since September 2001, the Company has implemented the staff's basic medical insurance scheme of Luoyang towns and townships. Under the procedures and their implementing rules, basic medical insurance and subsidy to serious illness of the Company's existing staff are stated as staff welfare.

27. DESIGNATED DEPOSIT AND DEPOSIT DUE

The Company deposited a sum of RMB240,980,000 with FTGF, which is a non-banking financial institution approved by The People's Bank of China, and is principally engaged in providing financial and monetary services to the group members of China Yituo. Save as the aforesaid deposits, the Company did not have any deposits deposited with any non-banking financial institution.

The Company granted a loan of RMB52,000,000 to its subsidiaries. The loan was granted in the form of designated deposits deposited with FTGF. The Company did not have any designated deposit other than the aforesaid. Save for the above-mentioned deposits in FTGF, all the cash deposits of the Company were deposited with commercial banks in the PRC in compliance with the relevant laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.

28. POLICIES ON UNIFIED INCOME TAX

The corporate income tax of the Company is subject to 33% tax rate based on its assessable profits.

29. LAND USE RIGHTS

Under the land leasing agreement entered into between the Company and its controlling Shareholder, China Yituo, on 4 June 1997, the Company is entitled to the right of use of land for 50 years from the effective date of the agreement. Furthermore, the Company possesses the ownership certificates of the buildings.

30. AUDIT COMMITTEE

The Company has set up an audit committee of the Company in order to perform the functions of reviewing and inspecting the procedures for the Group's financial reporting and internal surveillance.

The Audit Committee comprises of three independent non-executive Directors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group including a review of the audited accounts of the Group for the year ended 31 December 2005.

31. SIGNIFICANT EVENTS

Save for the connected transactions disclosed in the 2005 annual report, the Company had the following significant events during 2005:

1. On 23 November 2005, the Board approved the project for technological renovation of large/mid wheeled tractor projects with estimated investment of RMB354,405,000 (including the investment of RMB150,000,000 approved by the Board on 2 July 2004). Upon completion of the projects, the Company will be able to enhance its annual production. This is a significant initiative of the Company in adjusting the product mix to satisfy the surge of agriculture machinery business.

2. On 30 November 2005, the Board approved the transaction to transfer its 40% equity interests in NCSIT at a consideration of RMB40,000,000. NCSIT is mainly engaged in manufacturing and sale of tractor, automobile, transportation devices, mechanical and electrical product and mould tools. China Tractor and Automobile Group Company Limited (Hong Kong) (中國拖拉機汽車集團有限公司) holds 55% equity interests of NCSIT, and Ningbo Industrial and Trade Asset Management Company Limited (寧波市工貿資產經營有限公司) holds 5% equity interests of NCSIT.

3. On 10 December 2005, the Board resolved to invest RMB50,880,000 in Yituo (Luoyang) Transportation Machinery Company Limited ("YLTM") (一拖(洛陽)搬運機械有限公司). Following the investment, the registered capital of YLTM increased from RMB5,000,000 to RMB55,880,000, and 91.05% of its equity interests was held by the Company after the capital increase. The relevant work of capital increase is now processing. YLTM is principally engaged in manufacturing and sales of forklifts and mechanical machinery.

4. On 29 December 2005, the Board resolved to increase its investment in Si Chuan Southwest Stainless Steel Company Limited ("Stainless Steel Company") by RMB9,360,000 in cash. Following the investment, the registered capital of Stainless Steel Company was increased to RMB250,000,000, in which the Company contributed RMB23,360,000, holding 9.344% of the equity interests in Stainless Steel Company. Stainless Steel Company is mainly engaged in smelting and rolling of stainless steel and carbon steel as well as exploring and supply of raw materials.

5. The Company entered into an agreement with China Yituo Group Corporation Limited ("China Yituo") on 25 October 2005, pursuant to which the Company disposed YLSC to China Yituo.

32. POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group is set out in note 45 to the financial statements.

33. CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the reporting period of the 2005 annual report, details of which are set out in page 40-44 of the 2005 annual report.

The Board has conducted review of the effectiveness of the internal control system of the Company and its subsidiaries. However, due to (i) the large number of Company's subsidiaries; (ii) complicated shareholding structure; and (iii) large geographical coverage, the management and control of the Company and its subsidiaries are relatively difficult and as a result of which one of the subsidiaries of the Company failed to make the relevant disclosure requirement to the public before the connected transaction with minority Shareholders of the Company is conducted. In this regard, the Company will adopt effective measures to improve the internal control system of the Company and its subsidiaries, and to remedy the deficiency.

34. MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice (the "Model Code") with standards not less competent than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the reporting period, all Directors have complied with the Model Code in relation to securities transactions conducted by the Directors.

35. MATERIAL LITIGATION

During the reporting period, none of the Company, the Directors, Supervisors nor senior officers of the Company was involved in any material litigation or arbitration.

36. AUDITORS AND QUALIFIED ACCOUNTANT

Ernst & Young will be retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. There was no change in the auditors of the Company in the last 3 financial years.

Pursuant to Rule 3.24 of the Listing Rules, the Company must employ an individual with the specified qualifications set out in Rule 3.24 of the Listing Rules as a qualified accountant (the "Qualified Accountant") of the Company. As at the date of this report, the Company has not yet been able to find a suitable candidate to work as the Qualified Accountant. The Company will continue to find a suitable candidate to assume such position. The Company will keep the Shareholders informed of the progress of appointment.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
21 April 2006

CORPORATE GOVERNANCE REPORT

During the reporting period, the Company has been proactively complying with all code provisions of the Code on Corporate Governance Practices in Appendix 14 of Listing Rules, and implementing improved governance and disclosure measures. The Board has establised Audit Committee and Remuneration and Review Committee so as to ensure the efficient operation of the Board and set up a regulation system catering to the management of the Company, aims to implement their respective duties efficiently. The Company will continue to enhance its corporate governance measures and transparency in the Shareholder's regard.

THE BOARD OF DIRECTORS

The Board comprises ten executive Directors. Mr. Liu Dagong (Chairman), Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei and three independent non-executive Directors: Mr. Lu Zhongmin, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary.

The Board is the legal business decision organization of the Company. It is responsible for the leadership and control of business and operation of the Company, aiming to assist Shareholders to attain their best interests.

Under the leadership of the chairman, the Board is responsible for the formulating and review of the development and operating strategy and policies, making annual budget and final accounting scheme, business plans and proposing dividend plans as well as supervising management members, pursuant to relevant laws, regulations and Articles of Association. Under the leadership of general manager, management of the Company is responsible for the supervision of everyday business operation, policy planning and implementation and report to the Board in respect of all business of the Company. General manager keeps in contact with all directors and ensures director's timely receipt of adequate, complete and reliable information.

Basic principles applied in the Board's discussion of matters include: group decision, individual responsibility and the minority going along with the decision of the majority.

In the year, the Board of the Company convened a total of 23 meetings, and detailed attendance of each Directors is as follows:

	Name of Directors	Number of attendance / number of possible attendance
Chairman	Mr. Liu Dagong	23/23
Executive Directors	Mr. Liu Wenying	23/23
	Mr. Zhao Yanshui	23/23
	Mr. Yan Linjiao (General manager)	23/23
	Mr. Li Tengjiao	23/23
	Mr. Shao Haichen	23/23
	Mr. Zhang Jin(Financial controller)	23/23
	Mr. Li Youji	23/23
	Mr. Li Shuangchen	23/23
	Mr. Zhao Fei	23/23
Independent non-executive Directors	Mr. Lu Zhongmin	4/23
	Mr. Chen Sau Shan	2/23
	Mr. Chen Zhi	4/23

All of the three independent non-executive Directors meet evaluations on independence set out in Rule 3.13 of the Listing Rules. The death of Mr. Tao Xiang, the late independent non-executive Director, on 4 July 2005 resulted in a vacancy of independent non-executive Director, and the Company intends to select proper person as substitute in due course.

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

The Board convened four regular meetings this year. Before holding of each regular meeting, notice was delivered fourteen days prior to date of the meeting, to ensure that all Directors have the opportunity to propose discussion matters to be listed in the agenda; notices of other Board meetings has also been properly delivered to provide chances to all Directors to find time for their attendance. All Directors can access to opinion and services of the Company secretary, including reviewing minutes.

The Board is of the opinion that the Company had complied with Code on Corporate Governance Practices in Appendix 14 of the Listing Rules as at 31 December 2005.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The chairman of the Board is Mr. Liu Dagong, while the general manage of the Company is Yan Linjiao.

The biographical details of the chairman and general manager of the Company are set out on page 21 of this annual report.

During the year, the function of the Board's operation and management was clearly separated from that of the company's daily business management, and with a balance of power and authority, power was not concentrated in any individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In this term, the term of three independent non-executive Directors is three years, from 1 July 2003 to 30 June 2006.

SECURITIES TRANSACTION BY DIRECTORS

Standards adopted by the Company regarding securities transactions by Directors are not less competent than the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). All Directors has adhered to the Model Code in respect of securities transactions by Directors during the reporting period.

DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS:

Directors declare that they are responsible for preparing the financial statements to reflect a true and fair view of the Company for each financial year. Announcement of its reporting duty by the auditor is incorporated in the annual report, but the two announcements thereof are independent from each other.

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

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

DIRECTORS' REMUNERATION

In accordance with stipulations in the Listing Rules, the Company has set up Remuneration and Review Committee, to formulate policies of the Director's remuneration and determine remunerations thereof. The terms of reference thereof is set out as follows:

(i) to study and set review standards for Directors and managers, to carry out review and produce suggestions;

(ii) to study, review and formulate remuneration policies and scheme for directors an senior management;

Members of Remuneration and Review Committee include: Mr. Chen Zhi (chairman), Mr. Liu Dagong and Mr. Lu Zhong Min.

Remuneration of the Company's executive Directors is subjected to their positions, performance and contribution and is linked with the operating results of the Company.

In the year, the Committee convened one meeting to discuss matter relating to remuneration with attendance by Mr.Chen Zhi, Mr. Liu Dagong and Mr. Lu Zhongmin. The Remuneration and Review Committee has formulated relevant remuneration policy for executive Directors, evaluated performance of executive Directors and approved contract terms thereof.

NOMINATION OF DIRECTORS

Executive Directors shall be nominated by the controlling Shareholder, China Yituo, whose appointment is subject to approval of the Company's Shareholders at general meetings.

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

The Company has set up a standard for the nomination of the Directors, and the nomination, appointment and re-appointment of Directors is made on the basis of expertise, work experience, diligency, and level of knowledge in a fair and objective manner.

AUDITOR'S REMUNERATION

Ernst & Young and Ernst & Young Hua Ming were appointed as the international and the PRC auditors of the Group respectively. They have audited the financial statements and financial reports prepared under Hong Kong and PRC Accounting Standards, respectively. The remuneration for the two accounting firms amounted to HK$4.83 million. Among the total remuneration, HK$4.10 million represented the annual audit fee and HK$ 0.73 million represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, Ernst & Young Tax Services Limited provided profits tax reporting services in Hong Kong for the Company. Such services is not included in the scope of audit and the fee was HK$7,000.

AUDIT COMMITTEE

As required in the Listing Rules, the Company has set up Audit Committee. The terms of reference thereof is set out as follows:

(i) to review the appointment of accountant and auditing fee and to raise any question of their resignation or dismissal.

(ii) to review annual and interim financial information of the Company and disclosure thereof;

(iii) to regulate and review the internal control system of the Company, particularly the implementation of connected transactions;

(iv) to provide suggestion relating to proper operation of the Company.

Audit Committee comprises three independent non-executive Directors: Mr. Lu Zhongmin (Chairman), Mr. Chan Sau Shan, and Mr. Chen Zhi.

In the year 2005, Audit Committee convened two meetings with financial controller and external auditors. Audit Committee reviewed the results of the Group for year 2004, interim results of the Company for year 2005. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2005.

INTERNAL CONTROL

The Board is responsible the overall internal control system of the Company. The Directors have reviewed the internal control system of the Company and its subsidiaries, and have extent their approval on the principle of overall effectiveness. In relation to internal control of subsidiaries, due to (i) the large number of Company's subsidiaries; (ii) complicated shareholding structure; and (iii) large geographical coverage, the management and control of the Company and its subsidiaries are relatively difficult and as a result of which one of the subsidiaries of the Company failed to make the relevant disclosure requirement to the public before the connected transaction with minority Shareholders of the Company is conducted. In this regard, the Company will adopt effective measures to improve the internal control system of the Company and its subsidiaries, and to remedy the deficiency.

During the reporting period, there is no material uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

With regard to the appointment of the external auditors, the Board and the Audit committee has not taken different view in that respect.

By order of the Board
Liu Dagong
Chairman

Luoyang, the PRC
21 April 2006

REPORT OF THE SUPERVISORY COMMITTEE

I herein report that the supervisory committee of the Company (the "Supervisory Committee") has executed the function of monitoring and protected the legal interests of the Shareholders and the Company in accordance with the duties stipulated in the Company Law of the PRC and the Articles of Association during the year ended 31 December 2005.

1. To exercise the functions of monitoring the Directors, general manager and other senior officers of the Company. In 2005, there was no report or discovery of the violation of the Articles of Association, the laws and regulations and actions that infringed upon the interests of the Company by the Directors, general manager and other senior officers of the Company. In the opinion of the Supervisory Committee, they could carry out their duties honestly, comply with the laws and protect the interests of all the Shareholders.

   During the year, the Company had no material litigation nor did the Supervisory Committee have any negotiation with the Directors or bring any action against them on behalf of the Company.

2. To review the operation and financial position of the Company. The Supervisory Committee considers that the financial statements of the Company for the year ended 31 December 2005 which has been audited by an international accounting firm reflects a true and fair view of the operating results and assets of the Company in such year.

3. To check the financial statements and the proposal of profit distribution, which were proposed to the general meeting by the Directors. The Supervisory Committee considers that the above statements and the proposal have complied with the provisions of relevant laws and regulations and the Articles of Association.

4. In accordance with the Articles of Association, the Supervisors attended the Directors' meetings, participated in the Company's major activities and monitored the matters resolved by the Board.

By order of the Supervisory Committee
Liu A Nan
Chairman of the Supervisory Committee

Luoyang, the PRC
21 April 2006

SUPPLEMENTARY INFORMATION

The following details are the supplementary information related to the Group's financial operation. These information do not form part of the audited financial statements.

FINANCIAL ACTIVITIES

During the year, all of the Group's financial operations were conducted in the PRC.

CORPORATE GOVERNANCE

FTGF, an enterprise group finance company established in the PRC, is a non-banking financial institution approved by The People's Bank of China and under the supervision of CBRC. The board of directors of FTGF put efforts to ensure its compliance with Measures of Management on Enterprise Group Finance Companies promulgated by The People's Bank of China and the relevant regulatory laws and provisions required by CBRC. With an established legal person governance structure, FTGF has set up special committees with specific duties to strengthen its internal control.

INTERNAL CONTROL COMMITTEE

The internal control committee of FTGF is responsible to: formulate and amend its internal control system and perform auditing, evaluation and research thereof; enforce penalty in respect of any act in violation with the internal control system; accept supervision and auditing of its control system by CBRC; and file internal control information to CBRC in accordance with the relevant requirements. The internal control committee consists of the general manager, deputy general manager, manager of the poly-business department, manager of the auditing department and chief of the risk asset management office of FTGF.

ASSETS-LIABILITIES MANAGEMENT COMMITTEE

The assets-liabilities management committee is responsible for coordination and management on assets and liabilities of FTGF, seeking measures against inconsistency between liquidity and profitability, and carrying out solutions on unbalanced structure between assets and liabilities. The assets-liabilities management committee consists of the general manager, deputy general manager, chief auditor, manager of the credit and loan department, manager of the accounting department and manager of the auditing department of FTGF.

LOAN APPROVAL COMMITTEE

The loan approval committee is responsible for consideration of risks related to loans and approval of loans within its authorities. The loan approval committee consists of the general manager, deputy general manager, chief auditor, and managers of the auditing department, the credit and loan department and poly-business department of FTGF.

RISK MANAGEMENT INFORMATION

Credit risk

Credit risk is the risk that a customer or counterparty will be unable to meet a commitment in connection with the company's credit activities.

FTGF has established a set of strict credit granting criterion and approving system to control and manage credit risks. The loan approval committee is responsible to formulate credit policies and determine the cap of facilities, and each credit transaction was subject to a collective consideration and approval under conservative and prudent policies. The auditing department of FTGF is responsible for supervision over implementation of the credit approving system and post-credit inspection system, so as to control the risk as far as possible.

Market risk

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

FTGF monitored the exposure of financial instrument or business to market risks on a prudent manner and a regular basis, and made appropriate arrangement to minimise the exposure. The credit department and investment department periodically reported the latest interest rates and price movement in capital market to the credit approving committee and the assets-liabilities management committee, as well as the developing trend of the relevant State macro financial policies.

Liquidity risk

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

Keeping a close eye on the structure and position of its assets, the assets-liabilities committee of FTGF carried out analysis and assessment of liquidity and paying ability of its assets based on assets-liabilities benchmarks fixed by CBRC. Accordingly, corresponding managing polices were set out or aligned so as to maximise the company's interests on the basis of guarantee for the payment.

Operational risk

Operational risk is the risk resulting from errors, frauds or unexpected accidents of people in a company's daily operations.

With a series of internal control systems and polices to regulate its business, FTGF has specified duties of departments as well as workflows and authorities of its businesses. By virtue of training for the staff, inspection (either periodical or non-periodical) of the auditing department and amendment to the internal control system by the internal control committee from time to time, the overall operating and managerial expertise was improved and operational risk was effectively under control.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2005 annual general meeting ("the AGM") of First Tractor Company Limited (the "Company") will be held at No.154, Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "PRC") on Friday, 16 June 2006 at 9:00 a.m. for the purpose of passing the following resolutions:

(1) AS ORDINARY RESOLUTIONS:

1. To consider and approve the report of the board (the "Board") of directors (the "Directors") of the Company for the year 2005;

2. To consider and approve the report of the supervisory committee of the Company for the year 2005;

3. To consider and approve the audited financial report for the year 2005;

4 . To consider and approve the dividend distribution proposal (if any) for the year ended 31 December 2005;

5. To consider and approve the re-appointment of Ernst & Young as auditors of the Company for the year ending 31 December 2006 and to authorise the Board to determine the terms for such appointment;

6. To consider and approve the remuneration proposals for the Directors and supervisors of the Company;

7. To elect and confirm Directors of representative for shareholders in the fourth Board of Directors of the Company, with a term of three years commencing from 1 July 2006.

8. To consider and approve the re-appointment of Mr. Lu Zhongmin and Mr. Chan Sau Shan, Gary as independent non-executive Directors taking into account the fact that both Mr. Lu Zhongmin and Mr. Chan Sau Shan, Gary have served as independent non-executive Directors of the Company for more than 9 years and that the Company has not yet found any other candidates suitable for taking the position as independent non-executive Directors; In view of the fact that both Lu Zhongmin and Mr. Chan Sau Shan, Gary continue to be independent after considering the factors including but not limited to those as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, in particular, Lu Zhongmin and Mr. Chan Sau Shan, Gary do not hold any equity interests in the Company, not have any interest in the business of the Company, nor hold any other positions in the Company, the Company considers that Lu Zhongmin and Mr. Chan Sau Shan, Gary continue to be independent and should be re-appoint as independent non-executive Directors.

9. To elect and confirm supervisors of representative for shareholders in the fourth Supervisory Committee of the Company, with a term of three years commencing from 1 July 2006.

10. Other matters.

(2) AS SPECIAL RESOLUTIONS:

1. Subject to the accumlated limit not exceeding 50% of the net assets of the Company, to authorise the Board to determine any investment plan or proposal in respect of other limited companies, joint stock limited companies or other economic entities or projects, including but not limited to decisions on projects of investment, the companies or other economic entities to be invested, the amount, the investment method (including by way of issuance of domestic shares or overseas listed foreign shares) and the time of investment and the execution of the relevant agreements and other documents; and

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

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

   (a) the last day of the 12 months from the date of passing this resolution; and
   (b) the date on which the authorisation under this resolution is revoked or amended by a special resolution passed at a general meeting of the Company.

3. To authorise the Board to declare an interim dividend to the shareholders of the Company for the half year ended 30 June 2006.

BIOGRAPHIES OF CANDIDATES OF DIRECTORS AND SUPERVISORS:

The candidates of Directors for the fourth Board of Directors"

Executive Director: Liu Dagong, Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei; Independent non-executive Directors: Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen (newly nominated candidate). Mr. Liu Shuangcheng and Mr. Zhao Fei were Directors representing the staff and workers.

1. Mr. Liu Dagong, aged 51, executive Director

Experience

For details and experience of Mr. Liu, please refer to the profile of Mr. Liu as set out in page 21 of the 2005 annual report. Save as disclosed in the profile of Mr. Liu in page 21 of the 2005 annual report, Mr. Liu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Liu will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Liu will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Liu will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Liu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Liu does not have any interest in the shares (the "Share") of the Company (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571, Laws of Hong Kong, (the "SFO")).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Liu as a executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

2. Mr. Liu Wenying, aged 56, executive Director

Experience

For details and experience of Mr. Liu, please refer to the profile of Mr. Liu as set out in page 21 of the 2005 annual report. Save as disclosed in the profile of Mr. Liu in page 21 of the 2005 annual report, Mr. Liu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Liu will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Liu will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Liu will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Liu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Liu does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Liu as a executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

3. Mr. Zhao Yanshui, aged 42, executive Director

Experience

For details and experience of Mr. Zhao, please refer to the profile of Mr. Zhao as set out in page 21 of the 2005 annual report. Save as disclosed in the profile of Mr. Zhao in page 21 of the 2005 annual report, Mr. Zhao does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Zhao will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Zhao will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Zhao will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Zhao has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Zhao does not have any interest in the Shares (within the meaning of Part XV of the SFO).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Zhao as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

4. Mr. Yan Linjiao, aged 50, executive Director

Experience

For details and experience of Mr. Yan, please refer to the profile of Mr. Yan as set out in page 21 of the 2005 annual report. Save as disclosed in the profile of Mr. Yan in page 21 of the 2005 annual report, Mr. Yan does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Yan will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Yan will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Yan will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Yan has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, save for his interests in RMB290,000 registered capital of Yituo (Luoyang) Lutong Construction Machinery Company Limited, representing 0.5% of the registered capital of Yituo (Luoyang) Lutong Construction Machinery Company Limited, Mr. Yan does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Yan as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

5. Mr. Li Tengjiao, aged 49, executive Director

Experience

For details and experience of Mr. Li, please refer to the profile of Mr. Li as set out in page 22 of the 2005 annual report. Save as disclosed in the profile of Mr. Li in page 22 of the 2005 annual report, Mr. Li does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Li will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Li will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Li will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Li has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Li does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Li as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

6. Mr. Shao Haichen, aged 50, executive Director

Experience

For details and experience of Mr. Shao, please refer to the profile of Mr. Shao as set out in page 22 of the 2005 annual report. Save as disclosed in the profile of Mr. Shao in page 22 of the 2005 annual report, Mr. Shao does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Shao will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Shao will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Shao will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Shao has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Shao does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Shao as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

7. Mr. Zhang Jing, aged 50, executive Director

Experience

For details and experience of Mr. Zhang, please refer to the profile of Mr. Zhang as set out in page 22 of the 2005 annual report. Save as disclosed in the profile of Mr. Zhang in page 22 of the 2005 annual report, Mr. Zhang does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Zhang will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Zhang will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Zhang will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Zhang has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Zhang does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Zhang as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

8. Mr. Li Youji, aged 42, executive Director

Experience

For details and experience of Mr. Li, please refer to the profile of Mr. Li as set out in page 22 of the 2005 annual report. Save as disclosed in the profile of Mr. Li in page 22 of the 2005 annual report, Mr. Li does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Li will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Li will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Li will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Li has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Li does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Li as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

9. Mr. Liu Shuangcheng, aged 49, executive Director

Experience

For details and experience of Mr. Liu, please refer to the profile of Mr. Liu as set out in page 22 of the 2005 annual report. Save as disclosed in the profile of Mr. Liu in page 22of the 2005 annual report, Mr. Liu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Liu will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Liu will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Liu will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Liu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Liu does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Liu as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

10. Mr. Zhao Fei, aged 42, executive Director

Experience

For details and experience of Mr. Zhao, please refer to the profile of Mr. Zhao as set out in page 23 of the 2005 annual report. Save as disclosed in the profile of Mr. Zhao in page 23 of the 2005 annual report, Mr. Zhao does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Zhao will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Zhao will receive a Director's fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Zhao will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Zhao has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Zhao does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Zhao as an executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

11. Mr. Lu Zhongmin, aged 73, independent non-executive Director

Experience

For details and experience of Mr. Lu, please refer to the profile of Mr. Lu as set out in page 23 of the 2005 annual report. Save as disclosed in the profile of Mr. Lu in page 23 of the 2005 annual report, Mr. Lu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

No service contract will be entered into between Mr. Lu and the Company. The term is for a term of three years. Mr. Lu will not receive any emolument from the Company.

Relationships

Mr. Lu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Lu does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Lu as an independent non-executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

12. Mr. Chan Sau Shan, aged 52, independent non-executive Director

Experience

For details and experience of Mr. Chan, please refer to the profile of Mr. Chan as set out in page 23 of the 2005 annual report. Save as disclosed in the profile of Mr. Chan in page 23 of the 2005 annual report, Mr. Chan does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

No service contract will be entered into between Mr. Chan and the Company. The term is for a term of three years. Mr. Chan will not receive any emolument from the Company.

Relationships

Mr. Chan has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Chan does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Chan an independent non-executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

13. Mr. Chen Zhi, aged 50, independent non-executive Director

Experience

For details and experience of Mr. Chen, please refer to the profile of Mr. Chen as set out in page 23 of the 2005 annual report. Save as disclosed in the profile of Mr. Chen in page 23 of the 2005 annual report, Mr. Chen does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

No service contract will be entered into between Mr. Chen and the Company. The term is for a term of three years. Mr. Chen will not receive any emolument from the Company.

Relationships

Mr. Chen has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Chen does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Chen as an independent non-executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

14. Mr. Luo Xiwen, aged 61, independent non-executive Director

Experience

Mr. Luo, aged 61, joined South China Agricultural College in 1979 and had served the positions of Associate Professor of Faculty of Agricultural Engineering of South China Agricultural University, Dean of Faculty of Agricultural Engineering of South China Agricultural University and professor. He is currently Vice-chancellor and mentor of doctorate students and is the convenor of Agricultural Engineering Division of Bachelor Committee under the State Council. From 1987 to 1989, he visited the University of Viriginia, USA and University of Kentucky, USA to study a 2-year course as a visiting scholar. Mr. Luo is also the Deputy member of general committee of China Agricultural Engineering Association, the Deputy member of general committee of China Machinery Agricultural Association, the Deputy member of general committee of Ground Equipment System Association of China Agricultural Machinery Association, Deputy committee chief of Electronics Technology and Computer Application Committee of China Agricultural Engineering Association, Deputy committee chief of Agricultural Mechanisation Sub-division of China Agricultural Mechanisation Association, Deputy Chief Editor of Editing Committee of Agricultural Egineering Newspaper. He graduated from South China Agricultural College in 1982 and obtained a master degree and holds the title of professor.

Save as disclosed above, Mr. Luo does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

No service contract will be entered into between Mr. Luo and the Company. The term is for a term of three years. Mr. Luo will not receive any emolument from the Company.

Relationships

Mr. Luo has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Luo does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the appointment of Mr. Luo as an independent non-executive Director of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

The candidate of Supervisors for the fourth Supervisorory Committee is as follows:

Supervisor: Mr. Liu A Nan, Kong Lingfu (newly nominated candidate), Mr. Xu Weilin, Mr. Zhao Shengyao (newly nominated candidate), Mr. Shao Jiang Xin. Ms. Kong Lingfu and Mr. Shao Jiang Xin are Supervisors representing the staff and workers.

1. Mr. Liu A Man, aged 59, Supervisor

Experience

For details and experience of Mr. Liu, please refer to the profile of Mr. Liu as set out in page 24 of the 2005 annual report. Save as disclosed in the profile of Mr. Liu in page 24 of the 2005 annual report, Mr. Liu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Liu will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Liu will receive a fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Liu will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Liu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Liu does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Liu as a supervisor of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

2. Mr. Kong Lingfu, aged 55, Supervisor

Experience

Mr. Kong joined the China First Tractor Group in 1966 and had served as the positions of section chief of general office of China First Tractor Group, factory manager of Tongyong Cast Factory, officer chief of Party Office. He is currently the vice chairman of China First Tractor Group. Mr. Kong graduated from Central Party College majoring in Exonomics and Management and holds the title of senior political engineer. Mr, Kong has extensive experience in production, operation and management, as well as admnistration and supervision.

Save as disclosed above, Mr. Kong does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Kong will enter into a service agreement with the Company after the date of re-election for a term of three years. Mr. Kong will receive a fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Kong will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Kong has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Kong does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the appointment of Mr. Kong as a supervisor of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

3. Mr. Xu Weilin, aged 43, Supervisor

Experience

For details and experience of Mr. Xu, please refer to the profile of Mr. Xu as set out in page 24 of the 2005 annual report. Save as disclosed in the profile of Mr. Xu in page 24 of the 2005 annual report, Mr. Xu does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Xu will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Xu will receive a fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Xu will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Xu has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Xu does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Xu as a supervisor of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

4. Mr. Zhao Shengyao, aged 51, Supervisor

Mr. Zhao joined China First Tractor Group in 1975. He has been the deupty general manager of Yitou (Luoyang) Construction Machinery Co., Ltd., deupty general manager and Party Secretary of Yitou (Luoyang) Fuel Jet Co., Ltd. He is currently the deputy secretary of Disciplinary Committee of China First Tractor Group. Mr. Zhao has extensive experience in production, operation and management, as well as admnistration and supervision. He joined the Company since 1997.

Save as disclosed above, Mr. Zhao does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Zhao will enter into a service agreement with the Company after the date of re-election for a term of three years. Mr. Zhao will receive a fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Zhao will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Zhao has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Zhao does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the appointment of Mr. Zhao as a supervisor of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

5. Mr. Shao Jiangxin, aged 52, Supervisor

Experience

For details and experience of Mr. Shao, please refer to the profile of Mr. Shao as set out in page 24 of the 2005 annual report. Save as disclosed in the profile of Mr. Shao in page 24 of the 2005 annual report, Mr. Shao does not hold any other positions in the Company or any other member of the Group, nor held any directorship in any other listed company in the last three years.

Length of service and emolument

Mr. Shao will enter into a service agreement with the Company after the date of re-election, but before 30 June 2006 (being the last day of the service contract previously entered into) for a term of three years. Mr. Shao will receive a fee to be determined by the Board subject to the authorization by the Shareholders with reference to his duties and responsibilities with the Company and the market rate for the position. Mr. Shao will also be entitled to an annual discretionary bonus with reference of the performance of the Company.

Relationships

Mr. Shao has no relationship with any Director, supervisor or the senior management of the Company or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the date of this annual report, Mr. Shao does not have any interest in the Shares (within the meaning of Part XV of the SFO)).

Matters that need to be brought to the attention of the Shareholders

In relation to the re-election of Mr. Shao as a supervisor of the Company, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2) (h) to 13.51(2) (v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholder of the Company.

Notes:

1. The register of members of the Company will be temporarily closed from 17 May 2006 to 16 June 2006 (both days inclusive) during which no transfer of shares of the Company (the "Shares") will be registered in order to determine the list of shareholders of the Company (the "Shareholders") for attending the AGM. The last lodgment for Share transfer should be made on 16 May 2006 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 16 May 2006 are entitled to attend the AGM by presenting their identity documents. The address of H Share registrar of the Company, Hong Kong Registrars Limited is 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the registered address of the Company in not less than 24 hours before the time scheduled for the holding of the AGM or any adjournment thereof.

4. Shareholders or proxies who intend to attend the AGM are requested to deliver the duly completed and signed reply slip for attendance to the Company in person, by post or by facsimile on or before 4:00 p.m. Friday, 26 May 2006.

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

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

7. The Company's registered address:

   No. 154, Jianshe Road, Luoyang, Henan Province, the PRC

Postal code	:	471004
Telephone	:	86-379-64967038
Facsimile	:	86-379-64967438
Email	:	msc0038@first-tractor.com.cn

As at the date of hereof, the Board comprises ten executive Directors, namely, Mr. Liu Dagong (Chairman), Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei, and three independent non-executive Directors, namely Mr. Lu Zhongmin, Mr. Chen Zhi and Mr. Chan Sau Shan.

ERNST & YOUNG
安永會計師事務所

To the members
First Tractor Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 68 to 166 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
21 April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
REVENUE	5	**4,765,828**	4,246,554
Cost of sales		**(4,408,063)**	(3,905,535)
Gross profit		**357,765**	341,019
Other income and gains	5	**103,523**	114,027
Selling and distribution costs		**(172,021)**	(154,561)
Administrative expenses		**(262,482)**	(241,439)
Other operating expenses, net		**(86,126)**	(30,829)
Finance costs	7	**(11,186)**	(9,719)
Share of profits and losses of associates		**(6,955)**	4,709
Negative goodwill on acquisition of an associate recognised as income during the year	18	**—**	606
PROFIT/(LOSS) BEFORE TAX	6	**(77,482)**	23,813
Tax	10	**17,183**	(13,953)
PROFIT/(LOSS) FOR THE YEAR		**(60,299)**	9,860
Attributable to:			
Equity holders of the parent	11	**(50,436)**	11,961
Minority interests		**(9,863)**	(2,101)
		(60,299)	9,860
DIVIDENDS		**—**	—
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**(6.42) cents**	1.52 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**785,143**	781,073
Construction in progress	14	**151,620**	106,338
Prepaid land premiums	15	**13,761**	7,747
Negative goodwill	16	**—**	(1,758)
Interests in associates	18	**98,726**	137,645
Available-for-sale equity investments/long term investments	19	**71,984**	67,794
Loans receivable	20	**195,664**	205,750
Deferred tax assets	33	**28,235**	—
Total non-current assets		**1,345,133**	1,304,589
CURRENT ASSETS			
Inventories	21	**755,227**	865,110
Trade and bills receivables	22	**448,641**	490,690
Loans receivable	20	**193,685**	96,926
Bills discounted receivable	23	**167,437**	131,985
Other receivables	24	**244,378**	274,061
Equity investments at fair value through profit or loss/short term investments	26	**3,576**	19,661
Pledged deposits	27	**121,124**	69,206
Cash and cash equivalents	27	**542,429**	397,437
Total current assets		**2,476,497**	2,345,076
CURRENT LIABILITIES			
Trade and bills payables	28	**843,988**	731,891
Tax payable		**5,459**	2,913
Other payables and accruals	29	**388,223**	353,804
Customer deposits	31	**199,028**	219,707
Interest-bearing bank borrowings	32	**172,250**	96,660
Provisions	30	**16,785**	7,914
Total current liabilities		**1,625,733**	1,412,889
NET CURRENT ASSETS		**850,764**	932,187
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,195,897**	2,236,776

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**1,000**	—
Provisions	30	**17,442**	—
Total non-current liabilities		**18,442**	—
Net assets		**2,177,455**	2,236,776
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	**785,000**	785,000
Reserves	35(a)	**1,245,919**	1,292,131
		2,030,919	2,077,131
Minority interests		**146,536**	159,645
Total equity		**2,177,455**	2,236,776

Liu Dagong
Director

Yan Linjiao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

		Attributable to equity holders of the parent											
	Note	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	General and statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2005													
As previously reported		785,000	1,378,840	65,597	63,171	2,398	2,974	-	-	(220,849)	2,077,131	159,645	2,236,776
Opening adjustments	2.4	-	-	-	-	-	-	-	-	5,581	5,581	420	6,001
As restated		785,000	1,378,840	65,597	63,171	2,398	2,974	-	-	(215,268)	2,082,712	160,065	2,242,777
Exchange realignment		-	-	-	-	-	-	-	(1,357)	-	(1,357)	-	(1,357)
Total income and expense recognised directly in equity		-	-	-	-	-	-	-	(1,357)	-	(1,357)	-	(1,357)
Net loss for the year		-	-	-	-	-	-	-	-	(50,436)	(50,436)	(9,863)	(60,299)
Total income and expense for the year		-	-	-	-	-	-	-	(1,357)	(50,436)	(51,793)	(9,863)	(61,656)
Contributions from minority interests		-	-	-	-	-	-	-	-	-	-	2,700	2,700
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	(3,721)	(3,721)
Disposal of a subsidiary		-	-	(49)	(24)	-	-	-	-	73	-	(2,645)	(2,645)
Disposal of an associate		-	-	-	-	-	(821)	-	-	821	-	-	-
Transfer from/(to) reserves		-	-	3,269	1,597	127	-	2,217	-	(7,210)	-	-	-
At 31 December 2005		785,000	1,378,840*	68,817*	64,744*	2,525*	2,153*	2,217*	(1,357)*	(272,020)*	2,030,919	146,536	2,177,455
At 1 January 2004		785,000	1,378,840	61,699	62,749	1,759	1,515	-	-	(226,392)	2,065,170	129,749	2,194,919
Net profit for the year		-	-	-	-	-	-	-	-	11,961	11,961	(2,101)	9,860
Total income and expense for the year		-	-	-	-	-	-	-	-	11,961	11,961	(2,101)	9,860
Contributions from minority interests		-	-	-	-	-	-	-	-	-	-	40,620	40,620
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	(8,623)	(8,623)
Transfer from/(to) reserves		-	-	3,898	422	639	1,459	-	-	(6,418)	-	-	-
At 31 December 2004		785,000	1,378,840	65,597	63,171	2,398	2,974	-	-	(220,849)	2,077,131	159,645	2,236,776

* These reserve accounts comprise the consolidated reserves of RMB1,245,919,000 (2004: RMB1,292,131,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	**2005** ***RMB'000***	2004 *RMB'000* *(Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(77,482)**	23,813
Adjustments for:			
Finance costs	7	**11,186**	9,719
Share of profits and losses of associates		**6,955**	(4,709)
Interest income	5	**(34,442)**	(44,117)
Gain on disposal of items of property, plant and equipment, net	5	**(167)**	(320)
Gain on disposal of a subsidiary	5, 6	**(735)**	-
Gain on disposal of an associate	5, 6	**(11,000)**	-
Depreciation	6	**84,938**	89,664
Amortisation of prepaid land premiums	6	**188**	203
Impairment/(reversal of impairment) of construction in progress, net	6	**6,990**	(7,802)
Impairment/(reversal of impairment) of items of property, plant and equipment, net	6	**12,661**	(15,252)
Negative goodwill on acquisition of a subsidiary recognised as income during the year	5, 6	**—**	(234)
Negative goodwill on acquisition of an associate recognised as income during the year	18	**—**	(606)
Dividend income from unlisted available-for-sale equity investments/long term investments	5, 6	**(156)**	(501)
Gain on disposal of unlisted available-for-sale equity investments/long term investments	5, 6	**—**	(14,529)
Provision for and write-off of bad and doubtful debts, net	6	**23,098**	45,506
Provision/(reversal of provision) for other receivable	6	**9,220**	(17,720)
Net charge for impairment losses and allowances/provision for loans receivable	6	**(2,038)**	648
Net charge for impairment losses and allowances/provision for bills discounted receivable	6	**358**	(237)
Provision against obsolete inventories, net	6	**6,237**	7,448
Fair value loss on equity investments at fair value through profit or loss/short term investments, net	6	**1,444**	1,837

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Operating profit before working capital changes	**37,255**	72,811
(Increase)/decrease in inventories	**89,535**	(84,525)
Increase in loans receivable	**(84,635)**	(72,710)
(Increase)/decrease in trade and bills receivables	**14,551**	(125,165)
(Increase)/decrease in bills discounted receivable	**(35,810)**	23,642
(Increase)/decrease in other receivables	**40,804**	(6,233)
(Increase)/decrease in an amount due from the ultimate holding company	**(23,760)**	13,908
(Increase)/decrease in equity investments at fair value through profit or loss/short term investments	**14,641**	(14,543)
Increase in trade and bills payables	**130,968**	44,109
Decrease in customer deposits	**(20,679)**	(137,680)
Increase/(decrease) in accruals and other liabilities	**77,764**	(59,203)
Increase/(decrease) in an amount due to the ultimate holding company	**(42,345)**	48,111
Increase in provisions	**26,313**	412
Cash generated from/(used in) operations	**224,602**	(297,066)
Interest received	**34,442**	44,117
Interest paid	**(11,186)**	(9,719)
Income tax paid	**(6,390)**	(19,450)
Net cash inflow/(outflow) from operating activities	**241,468**	(282,118)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from unlisted available-for-sale equity investments/long term investments		**156**	501
Dividend income received from an associate		**7,207**	3,745
Purchases of items of property, plant and equipment and additions to construction in progress		**(183,548)**	(129,896)
Proceeds from disposal of items of property, plant and equipment		**17,455**	27,740
Purchases of unlisted available-for-sale equity investments/long term investments		**(4,190)**	(4,689)
Proceeds from disposal of long term investments		**—**	16,529
Investment in an associate		**—**	(800)
Disposal of an associate		**40,000**	—
Disposal of a subsidiary	36	**3,550**	—
(Increase)/decrease in mandatory reserve deposits in the People's Bank of China		**(8,832)**	15,076
(Increase)/decrease in time deposits		**(62,718)**	244,545
(Increase)/decrease in pledged deposits		**(51,918)**	50,951
Net cash inflow/(outflow) from investing activities		**(242,838)**	223,702
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**232,230**	218,270
Repayment of bank loans		**(153,040)**	(186,907)
Dividends paid to minority shareholders		**(3,721)**	(8,623)
Contributions from minority shareholders		**700**	12,307
Net cash inflow from financing activities		**76,169**	35,047
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**74,799**	(23,369)
Cash and cash equivalents at beginning of year		**361,625**	384,994
Effect of foreign exchange rate changes, net		**(1,357)**	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		**435,067**	361,625
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**416,883**	340,043
Non-pledged time deposits with original maturity of less than three months when acquired	27	**18,184**	21,582
		435,067	361,625

BALANCE SHEET

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**522,807**	522,870
Construction in progress	14	**138,625**	77,226
Prepaid land premiums	15	**2,092**	—
Investments in subsidiaries	17	**645,152**	643,052
Investments in associates	18	**80,760**	105,760
Available-for-sale equity investments/long term investments	19	**70,420**	65,780
Deferred tax assets	33	**28,235**	—
Total non-current assets		**1,488,091**	1,414,688
CURRENT ASSETS			
Inventories	21	**378,736**	369,376
Trade and bills receivables	22	**315,039**	238,536
Other receivables	24	**140,725**	158,041
Due from subsidiaries	17	**129,530**	130,570
Loans to subsidiaries	17	**52,000**	62,000
Deposits placed in a subsidiary	17	**240,980**	123,273
Pledged deposits	27	**58,391**	3,000
Cash and cash equivalents	27	**224,154**	63,121
Total current assets		**1,539,555**	1,147,917
CURRENT LIABILITIES			
Trade and bills payables	28	**526,451**	287,277
Tax payable		**769**	769
Other payables and accruals	29	**288,583**	221,242
Due to subsidiaries	17	**5,101**	29,214
Interest-bearing bank borrowings	32	**93,590**	20,000
Provisions	30	**5,529**	2,202
Total current liabilities		**920,023**	560,704
NET CURRENT ASSETS		**619,532**	587,213
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,107,623**	2,001,901

BALANCE SHEET

31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000 (Restated)*
NON-CURRENT LIABILITIES			
Provisions	30	**14,541**	—
Total non-current liabilities		**14,541**	—
Net assets		**2,093,082**	2,001,901
EQUITY			
Issued capital	34	**785,000**	785,000
Reserves	35(b)	**1,308,082**	1,216,901
Total equity		**2,093,082**	2,001,901

Liu Dagong
Director

Yan Linjiao
Director

1. CORPORATE INFORMATION

First Tractor Company Limited is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 154 Jian She Road, Luoyang, Henan Province, the PRC.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of agricultural machinery
- manufacture and sale of construction machinery
- manufacture and sale of biochemical products

In the opinion of the directors, the parent and the ultimate holding company of the Group is China Yituo Group Corporation Limited (the "Holding"), which is established in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 30	Disclosure in the Financial Statements of Banks and Similar Financial Institutions
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28, 30, 33, 37, 38 and HKFRS 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 - Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and accumulated losses. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 - Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

(ii) Loans receivables

In prior years, loans receivable arising from financial operations of the Group were reported in the balance sheet at the principal amount outstanding net of provision for loans receivable. Specific provisions and general provisions were made for loans receivable by applying various percentages to the loans receivable balance classified as pass, special mention, substandard, doubtful and loss.

Upon the adoption of HKAS 39, loans receivables are measured at amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. The previous approach of maintaining specific and general provisions is replaced with individual and collective impairment allowances after the adoption of HKAS 39. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment. Where there is no objective evidence of impairment, impairment is assessed collectively based on expected cash flows and historical loss experience.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 - Financial Instruments *(continued)*

(ii) Loans receivables *(continued)*

This change in accounting policy has had no material effect on the consolidated income statement and consolidated balance sheet.

(c) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill to the extent of the fair value of the acquired non-monetary assets was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated income statement was included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amount of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	HKAS 17#	HKFRS 32# and 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Derecognition of negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Property, plant and equipment	(7,747)	—	—	(7,747)
Prepaid land premiums	7,747	—	—	7,747
Negative goodwill	—	—	1,758	1,758
Interests in associates	—	—	4,243	4,243
Available-for-sale equity investments	—	67,794	—	67,794
Long term investments	—	(67,794)	—	(67,794)
Equity investments at fair value through profit or loss	—	19,661	—	19,661
Short term investments	—	(19,661)	—	(19,661)
				6,001
Liabilities/equity				
Retained profits/(accumulated losses)	—	—	5,581	5,581
Minority interests	—	—	420	420
				6,001

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

	Effect of adopting			
At 31 December 2005	HKAS 17#	HKFRS 32# and 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Derecognition of negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Property, plant and equipment	(13,761)	—	—	(13,761)
Prepaid land premiums	13,761	—	—	13,761
Negative goodwill	—	—	1,524	1,524
Interests in associates	—	—	3,637	3,637
Available-for-sale equity investments	—	71,984	—	71,984
Long term investments	—	(71,984)	—	(71,984)
Equity investments at fair value through profit or loss	—	3,576	—	3,576
Short term investments	—	(3,576)	—	(3,576)
				5,161
Liabilities/equity				
Retained profits/(accumulated losses)	—	—	4,801	4,801
Minority interests	—	—	360	360
				5,161

* Adjustments taken effect prospectively from 1 January 2005
# Adjustments/presentation taken effect retrospectively

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

The adoption of HKFRS 3 has reduced the accumulated losses of the Group as at 1 January 2005 by RMB5,581,000 and increased the minority interests by RMB420,000.

In accordance with the relevant transitional provisions of the HKFRSs, the adoption of the HKFRSs did not result in retrospective adjustments being made to the opening balances of equity at 1 January 2004.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates *RMB'000*	Effect of adopting HKFRS 3 Discontinuation of recognition of negative goodwill as income *RMB'000*	Total *RMB'000*
Year ended 31 December 2005			
Decrease in other income and gains	—	(234)	(234)
Decrease in negative goodwill on acquisition of an associate recognised as income during the year	—	(606)	(606)
Decrease in share of profits and losses of associates	(5,173)	—	(5,173)
Decrease in tax	5,173	—	5,173
Total decrease in profit	—	(840)	(840)
Decrease in basic earnings per share	—	(0.11) cents	(0.11) cents
Year ended 31 December 2004			
Decrease in share of profits and losses of associates	(4,710)	—	(4,710)
Decrease in tax	4,710	—	4,710
Total increase/(decrease) in profit	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

Change in segment identification

During the year, the Group changed its identification of reportable business segments. The Group consolidated its previous six business segments, namely, "Tractors", "Road machinery", "Construction machinery", "Harvesting machinery", "Financial operations" and "Others" into four new business segments, namely, "Agricultural machinery", "Construction machinery", "Financial operations"and "Others". Further information of the four new business segments is detailed in note 4 to the financial statements. In the opinion of the directors, the new basis of segment identification provides a more appropriate presentation of the segment information. Prior year segment information is restated for comparative purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 *(continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	8 - 30 years
Plant, machinery and equipment	6 - 16 years
Transportation vehicles and equipment	6 - 12 years

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 each balance sheet date.

An item of property, plant and 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

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, installation and testing. Capitalisation of interest charges and exchange difference ceases when the fixed assets are substantially ready for their intended use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries and associates, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2004: *(continued)*

Long term investments *(continued)*

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

Short term investments

Short term investments are investments in debt and equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

The Group's financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Where there is no reasonable prospect of recovery, the loan is written off.

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, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Customer deposits

Customer deposits arising from the Group's financial operations are carried at amortised cost using the original effective interest method taking into account the unamortised portion of relevant fees and expenses.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(b) rental income and income from trademark licence fee, on a time proportion basis over the lease terms;

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

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

Employee benefits

Pension obligations

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

Early retirement benefits

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of an overseas subsidiary is currency other than the RMB. As at the balance sheet date, the assets and liabilities of this entity are translated into the presentation currency of the Company at the exchange rate ruling at the balance sheet date and its income statement is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated into RMB at the exchange rate ruling at the date of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into property leases on its property, plant and equipment. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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 lives. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount.

Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on the judgement of the 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 on each of the balance sheet date.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items identified 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 balance sheet date and makes provision against obsolete items. Management reassesses the estimation on each of the balance sheet date.

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 included the unit rate charged by repair centres, number of units of products and components already sold which may require repairs and maintenance, and the miscellaneous expenditures which may be incurred, etc.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for early retirement benefits

The benefits of the early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to historical salaries of such early retirees, discounted to their present values as appropriate.

Income tax

The Group is subject to income taxes in various regions within the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate 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 are different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. As detailed in note 2.4 to the financial statements, the Group adopted a new segment reporting basis and consolidated its businesses into four new business segments during the year. Summary details of the four new business segments are as follows:

(a) the "Agricultural machinery" segment engages in the manufacture and sale of agricultural machinery, including tractors, harvesters, relevant parts and components;

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

4. SEGMENT INFORMATION *(continued)*

(c) the "Financial operations" segment engages in the provision of loan lending, bills discounting and deposit-taking services; and

(d) the "Others" segment comprises, principally, the manufacture and sale of biochemical products.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Agricultural machinery 2005 RMB'000	Agricultural machinery 2004 RMB'000 (Restated)	Construction machinery 2005 RMB'000	Construction machinery 2004 RMB'000 (Restated)	Financial operations 2005 RMB'000	Financial operations 2004 RMB'000 (Restated)	Others 2005 RMB'000	Others 2004 RMB'000 (Restated)	Eliminations 2005 RMB'000	Eliminations 2004 RMB'000 (Restated)	Consolidated 2005 RMB'000	Consolidated 2004 RMB'000 (Restated)
Segment revenue												
Sales to external customers	**3,751,521**	3,064,060	**1,013,898**	1,182,482	**—**	—	**409**	12	**—**	—	**4,765,828**	4,246,554
Intersegment revenue	**285,549**	223,071	**46,692**	11,326	**15,373**	13,187	**—**	—	**(347,614)**	(247,584)	**—**	—
Other income and gains	**—**	—	**—**	—	**33,480**	40,260	**—**	—	**—**	—	**33,480**	40,260
Total	**4,037,070**	3,287,131	**1,060,590**	1,193,808	**48,853**	53,447	**409**	12	**(347,614)**	(247,584)	**4,799,308**	4,286,814
Segment results	**23,254**	(8,194)	**(122,768)**	(27,379)	**33,477**	31,723	**(3,015)**	(5,909)	**—**	—	**(69,052)**	(9,759)
Interest, dividend and investment income and negative goodwill on acquisition of a subsidiary recognised as income											**8,640**	22,773
Gain on disposal of a subsidiary											**735**	—
Gain on disposal of an associate											**11,000**	—
(Provision)/reversal of provision for other receivable											**(9,220)**	17,720
Unallocated expenses											**(1,444)**	(2,517)
Finance costs											**(11,186)**	(9,719)
Share of profits and losses of associates	**7,589**	6,897	**—**	—	**—**	—	**(14,544)**	(2,188)	**—**	—	**(6,955)**	4,709
Negative goodwill on acquisition of an associate recognised as income during the year											**—**	606
Profit/(loss) before tax											**(77,482)**	23,813
Tax											**17,183**	(13,953)
Profit/(loss) for the year											**(60,299)**	9,860

4. SEGMENT INFORMATION *(continued)*

Group	Agricultural machinery 2005 RMB'000	Agricultural machinery 2004 RMB'000 (Restated)	Construction machinery 2005 RMB'000	Construction machinery 2004 RMB'000 (Restated)	Financial operations 2005 RMB'000	Financial operations 2004 RMB'000 (Restated)	Others 2005 RMB'000	Others 2004 RMB'000 (Restated)	Eliminations 2005 RMB'000	Eliminations 2004 RMB'000 (Restated)	Consolidated 2005 RMB'000	Consolidated 2004 RMB'000 (Restated)
Segment assets	**2,363,035**	1,896,969	**929,758**	1,143,748	**1,052,074**	920,176	**77,667**	78,306	**(826,411)**	(660,698)	**3,596,123**	3,378,501
Interest in associates	**—**	28,618	**—**	—	**—**	—	**98,726**	109,027	**—**	—	**98,726**	137,645
Unallocated assets											**126,781**	133,519
Total assets											**3,821,630**	3,649,665
Segment liabilities	**1,009,779**	712,678	**644,593**	734,236	**512,670**	402,644	**124,835**	124,456	**(826,411)**	(660,698)	**1,465,466**	1,313,316
Unallocated liabilities											**178,709**	99,573
Total liabilities											**1,644,175**	1,412,889
Other segment information:												
Capital expenditure	**147,658**	96,973	**35,426**	32,465	**125**	458	**339**	—	**—**	—	**183,548**	129,896
Depreciation	**65,053**	72,816	**18,641**	16,160	**567**	511	**677**	177	**—**	—	**84,938**	89,664
Impairment/(reversal of impairment) of items of property, plant and equipment and construction in progress, net	**7,637**	(23,054)	**9,353**	—	**—**	—	**2,661**	—	**—**	—	**19,651**	(23,054)
Provision and write-off of bad and doubtful debts, net	**2,448**	4,938	**20,650**	38,568	**—**	—	**—**	2,000	**—**	—	**23,098**	45,506
Provision/(reversal of provision) against obsolete inventories, net	**(215)**	(8,380)	**6,452**	15,328	**—**	—	**—**	500	**—**	—	**6,237**	7,448
Provision/(reversal of provision) for loans receivable, net	**—**	—	**—**	—	**(2,038)**	648	**—**	—	**—**	—	**(2,038)**	648

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Revenue			
Sale of goods		**4,765,828**	4,246,554
Other income			
Bank interest income		**7,460**	5,048
Interest income from financial operations		**26,982**	39,069
Profit from sundry sales		**29,046**	22,757
Rental income		**5,614**	6,985
Trademark licence fee		**—**	2,110
Investment income from short term listed investments		**—**	1,400
Dividend income from short term listed investments		**—**	1,061
Dividend income from unlisted available-for-sale equity investments/long term investments		**156**	501
Others		**21,339**	20,013
		90,597	98,944
Gains			
Gain on disposal of items of property, plant and equipment, net		**167**	320
Gain on disposal of a subsidiary	36	**735**	—
Gain on disposal of an associate		**11,000**	—
Gain on disposal of unlisted available-for-sale equity investments/long term investments		**—**	14,529
Gain on disposal of listed equity investments through profit or loss/short term investments, net		**1,024**	—
Negative goodwill on acquisition of a subsidiary recognised as income during the year	16	**—**	234
		12,926	15,083
		103,523	114,027

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold		**4,408,063**	3,905,535
Depreciation	13	**84,938**	89,664
Amortisation of prepaid land premiums	15	**188**	203
Impairment/(reversal of impairment) of construction in progress, net**	14	**6,990**	(7,802)
Impairment/(reversal of impairment) of items of property, plant and equipment, net**	13	**12,661**	(15,252)
Employee benefits expense (excluding directors' and supervisors' remuneration - note 8):			
Wages and salaries		**307,911**	285,586
Pension scheme contributions***		**65,333**	58,380
Provision for early retirement benefits	30	**23,896**	—
		397,140	343,966
Minimum lease payments under operating leases:			
Land and buildings		**11,906**	14,641
Plant and machinery		**3,803**	2,539
		15,709	17,180
Research and development costs		**27,640**	24,186
Auditors' remuneration		**4,264**	3,500
Provision for and write-off of bad and doubtful debts, net		**23,098**	45,506
Provision/(reversal of provision) for other receivable	24(i)	**9,220**	(17,720)
Net charge for impairment losses and allowances/ provision for loans receivable	20	**(2,038)**	648

6. PROFIT/(LOSS) BEFORE TAX *(continued)*

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Net charge for impairment losses and allowances/ provision for bills discounted receivable	23	**358**	(237)
Interest expense on financial operations		**6,868**	11,244
Provision against obsolete inventories, net		**6,237**	7,448
Gain on disposal of items of property, plant and equipment, net		**(167)**	(320)
Fair value loss on equity investments at fair value through profit or loss/short term investments, net		**1,444**	1,837
Gain on disposal of a subsidiary*	36	**(735)**	—
Gain on disposal of an associate*		**(11,000)**	—
Foreign exchange differences, net		**600**	1,330
Investment income from short term listed investments		**—**	(1,400)
Dividend income from short term listed investments		**—**	(1,061)
(Gain)/loss on disposal of listed equity investments through profit or loss/short term investments, net		**(1,024)**	680
Dividend income from unlisted available-for-sale equity investments/long term investments		**(156)**	(501)
Gain on disposal of unlisted available-for-sale equity investments/long term investments		**—**	(14,529)
Bank interest income		**(7,460)**	(5,048)
Interest income from financial operations		**(26,982)**	(39,069)
Negative goodwill on acquisition of a subsidiary recognised as income during the year*	16	**—**	(234)
Gross rental income		**(5,614)**	(6,985)

* The gains on disposal of a subsidiary and an associate, and the movements in negative goodwill on acquisition of a subsidiary recognised in the income statement for the year are included in "Other income and gains" on the face of the consolidated income statement.

** The impairment/(reversal of impairment) of construction in progress and items of property, plant and equipment are included in "Other operating expenses, net" on the face of the consolidated income statement.

*** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2004: Nil).

7. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**11,186**	9,719
Less: Interest capitalised	**—**	—
	11,186	9,719

8. 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:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**600**	530
Performance related bonuses	**300**	265
Pension scheme contributions	**220**	199
	1,120	994
	1,120	994

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

(a) Independent non-executive directors

There was no remuneration paid and payable to the independent non-executive directors for their services rendered to the Company during the year (2004: Nil).

(b) Executive directors and supervisors

2005	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors:					
Mr. Liu Dagong	—	46	23	17	86
Mr. Liu Wenying	—	46	23	17	86
Mr. Zhao Yanshui	—	46	23	17	86
Mr. Yan Linjiao	—	46	23	17	86
Mr. Li Tengjiao	—	46	23	17	86
Mr. Shao Haichen	—	46	23	17	86
Mr. Zhang Jing	—	46	23	17	86
Mr. Li Youji	—	46	23	17	86
Mr. Liu Shuangcheng	—	46	23	17	86
Mr. Zhao Fei	—	46	23	17	86
	—	460	230	170	860
Supervisors:					
Mr. Liu A Nan	—	28	14	10	52
Mr. Zhao Zhonghai	—	28	14	10	52
Mr. Xu Weilin	—	28	14	10	52
Ms. Wang Aiying	—	28	14	10	52
Mr. Shao Jiangxin	—	28	14	10	52
	—	140	70	50	260
	—	600	300	220	1,120

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

(b) Executive directors and supervisors *(continued)*

2004	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors:					
Mr. Liu Dagong	—	42	21	16	79
Mr. Dong Yongan	—	34	16	13	63
Mr. Liu Wenying	—	42	21	16	79
Mr. Zhao Yanshui	—	42	21	16	79
Mr. Yan Linjiao	—	26	13	10	49
Mr. Li Tengjiao	—	42	21	16	79
Mr. Shao Haichen	—	42	21	16	79
Mr. Zhang Jing	—	42	21	16	79
Mr. Li Youji	—	8	4	3	15
Mr. Liu Shuangcheng	—	42	21	16	79
Mr. Zhao Fei	—	8	4	3	15
Mr. Huang Yanzhao	—	35	16	13	64
	—	405	200	154	759
Supervisors:					
Mr. Liu A Nan	—	25	13	9	47
Mr. Zhao Zhonghai	—	25	13	9	47
Mr. Xu Weilin	—	25	13	9	47
Ms. Wang Aiying	—	25	13	9	47
Mr. Shao Jiangxin	—	25	13	9	47
	—	125	65	45	235
	—	530	265	199	994

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: one) non-director employees, details of whose remuneration are as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**200**	35
Performance related bonuses	**105**	45
Pension scheme contributions	**15**	6
	320	86

All of the remaining three (2004: four) highest paid employees for the year are directors of the Company, details of whose remuneration are set out in note 8 above.

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**2**	1

10. TAX

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Group:		
Current - PRC corporate income tax		
Charge for the year	**10,811**	15,185
Under/(over) provision in prior years	**241**	(1,232)
Deferred tax (note 33)	**(28,235)**	—
Total tax charge/(credit) for the year	**(17,183)**	13,953

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 2005 and 2004.

10. TAX *(continued)*

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (2004: 10% to 33%) on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Profits tax of the subsidiary operating outside the PRC is subject to the rates applicable in its jurisdiction. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2004: Nil).

The share of tax attributable to associates amounting to RMB5,173,000 (2004: RMB4,710,000), is included in "Share of profits and losses of associates" on the face of the consolidated income statement. The PRC corporate income tax of the associates is calculated at rates ranging from 15% to 33% (2004: 15% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

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

	Group			
	2005		2004	
	RMB'000	**%**	*RMB'000*	%
			(Restated)	
Profit/(loss) before tax	**(77,482)**		23,813	
Tax at PRC statutory tax rate	**(25,569)**	**33**	7,858	33
Lower tax rate for specific provinces or local authority	**(2,139)**	**3**	(5,817)	(24)
Adjustments in respect of current tax of previous periods	**241**	**—**	(1,232)	(5)
Profits and losses attributable to associates	**2,295**	**(3)**	(1,754)	(7)
Income not subject to tax	**(395)**	**1**	(13,696)	(58)
Expenses not deductible for tax	**34,445**	**(45)**	11,413	48
Tax losses utilised from previous periods	**(57,664)**	**74**	(7,047)	(30)
Tax losses not recognised	**31,603**	**(41)**	24,228	102
Tax charge/(credit) at the Group's effective rate	**(17,183)**	**22**	13,953	59

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB91,181,000 (2004: RMB29,435,000) (note 35(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the net loss for the year attributable to ordinary equity holders of the parent of RMB50,436,000 (2004: net profit of RMB11,961,000), and the weighted average number of 785,000,000 (2004: 785,000,000) ordinary shares in issue during the year.

No diluted earnings/(loss) per share amounts are presented as the Company does not have any dilutive potential ordinary shares in both years presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	788,703	1,229,634	52,297	2,070,634
Accumulated depreciation and impairment	(444,318)	(825,727)	(19,516)	(1,289,561)
Net carrying amount	344,385	403,907	32,781	781,073
At 1 January 2005, net of accumulated depreciation and impairment	344,385	403,907	32,781	781,073
Additions	2,572	4,625	7,561	14,758
Disposals	(7,075)	(6,133)	(4,080)	(17,288)
Disposal of a subsidiary (note 36)	(1,374)	(5,471)	(242)	(7,087)
Contributions by minority interests as capital of a subsidiary	—	1,807	193	2,000
Impairment	(5,017)	(6,294)	(1,350)	(12,661)
Depreciation provided during the year	(26,675)	(53,953)	(4,310)	(84,938)
Transfer from construction in progress (note 14)	53,275	52,007	4,004	109,286
At 31 December 2005, net of accumulated depreciation and impairment	360,091	390,495	34,557	785,143
At 31 December 2005:				
Cost	833,481	1,232,133	56,029	2,121,643
Accumulated depreciation and impairment	(473,390)	(841,638)	(21,472)	(1,336,500)
Net carrying amount	360,091	390,495	34,557	785,143

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

Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004				
At 1 January 2004:				
Cost	762,831	1,230,017	76,650	2,069,498
Accumulated depreciation and impairment	(423,695)	(838,784)	(38,601)	(1,301,080)
Net carrying amount	339,136	391,233	38,049	768,418
At 1 January 2004, net of accumulated depreciation and impairment	339,136	391,233	38,049	768,418
Additions	5,078	11,377	8,599	25,054
Disposals	(3,498)	(20,402)	(3,520)	(27,420)
Reclassifications	(326)	13,112	(12,786)	—
Contributions by minority interests as capital of subsidiaries	5,101	7,271	2,367	14,739
Reversal of impairment recognised in the income statement during the year	—	15,252	—	15,252
Depreciation provided during the year	(24,240)	(61,657)	(3,767)	(89,664)
Transfer from construction in progress (note 14)	23,134	47,721	3,839	74,694
At 31 December 2004, net of accumulated depreciation and impairment	344,385	403,907	32,781	781,073
At 31 December 2004:				
Cost	788,703	1,229,634	52,297	2,070,634
Accumulated depreciation and impairment	(444,318)	(825,727)	(19,516)	(1,289,561)
Net carrying amount	344,385	403,907	32,781	781,073

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

Company

	Buildings	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	577,756	1,042,399	19,659	1,639,814
Accumulated depreciation and impairment	(367,566)	(738,440)	(10,938)	(1,116,944)
Net carrying amount	210,190	303,959	8,721	522,870
At 1 January 2005, net of accumulated depreciation and impairment	210,190	303,959	8,721	522,870
Additions	1,510	—	189	1,699
Disposals	(2,938)	(604)	(854)	(4,396)
Depreciation provided during the year	(19,006)	(42,305)	(1,688)	(62,999)
Transfer from construction in progress (note 14)	24,897	37,506	3,230	65,633
At 31 December 2005, net of accumulated depreciation and impairment	214,653	298,556	9,598	522,807
At 31 December 2005:				
Cost	599,384	1,037,585	19,465	1,656,434
Accumulated depreciation and impairment	(384,731)	(739,029)	(9,867)	(1,133,627)
Net carrying amount	214,653	298,556	9,598	522,807

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

Company

	Buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Transportation vehicles and equipment *RMB'000*	Total *RMB'000*
31 December 2004				
At 1 January 2004:				
Cost	583,665	1,114,478	19,921	1,718,064
Accumulated depreciation and impairment	(365,616)	(788,560)	(11,737)	(1,165,913)
Net carrying amount	218,049	325,918	8,184	552,151
At 1 January 2004, net of accumulated depreciation and impairment	218,049	325,918	8,184	552,151
Additions	1,083	4,490	1,051	6,624
Disposals	(4,990)	(19,155)	(1,059)	(25,204)
Reversal of impairment during the year recognised in the income statement during the year	—	15,252	—	15,252
Depreciation provided during the year	(18,007)	(51,627)	(1,652)	(71,286)
Transfer from construction in progress (note 14)	14,055	29,081	2,197	45,333
At 31 December 2004, net of accumulated depreciation and impairment	210,190	303,959	8,721	522,870
At 31 December 2004:				
Cost	577,756	1,042,399	19,659	1,639,814
Accumulated depreciation and impairment	(367,566)	(738,440)	(10,938)	(1,116,944)
Net carrying amount	210,190	303,959	8,721	522,870

At 31 December 2005, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB18,806,000 (2004: RMB27,417,000) were pledged to secure certain short term bank loans granted to the Group (note 32).

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

Impairment loss recognised in the income statement during the year is summarised as follows:

	RMB'000
Construction machinery segment - note	10,000
Others	2,661
	12,661

Note: Due to the downturn in construction machinery market, certain items of property, plant and equipment in the construction machinery segment were written down to the recoverable amount. The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consists of the property, plant and equipment of Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC"), a subsidiary. In determining value in use for the cash-generating unit, the cash flows were discounted at a rate of 6% on a pre-tax basis.

During the year ended 31 December 2004, certain impaired fixed assets previously under long term idle condition had been modified and restored to their normal economic performance, and the relevant impairment provision was reversed accordingly.

14. CONSTRUCTION IN PROGRESS

	Group *RMB'000*	**Company** *RMB'000*
31 December 2005		
At 31 December 2004 and at 1 January 2005:		
Cost	113,500	83,198
Impairment	(7,162)	(5,972)
Net carrying amount	106,338	77,226
At 1 January 2005, net of impairment	106,338	77,226
Additions	162,588	134,668
Transfer to items of property, plant and equipment (note 13)	(109,286)	(65,633)
Disposal of a subsidiary (note 36)	(1,030)	–
Impairment recognised in the income statement during the year	(8,063)	(8,063)
Reversal of impairment recognised in the income statement during the year	1,073	427
At 31 December 2005, net of impairment	151,620	138,625
At 31 December 2005:		
Cost	165,622	152,233
Impairment	(14,002)	(13,608)
Net carrying amount	151,620	138,625

14. CONSTRUCTION IN PROGRESS *(continued)*

	Group	**Company**
	RMB'000	*RMB'000*
31 December 2004		
At 1 January 2004:		
Cost	83,694	61,927
Impairment	(14,964)	(13,774)
Net carrying amount	68,730	48,153
At 1 January 2004, net of impairment	68,730	48,153
Additions	104,500	66,604
Transfer to items of property, plant and equipment (note 13)	(74,694)	(45,333)
Reversal of impairment recognised in the income statement during the year	7,802	7,802
At 31 December 2004, net of impairment	106,338	77,226
At 31 December 2004:		
Cost	113,500	83,198
Impairment	(7,162)	(5,972)
Net carrying amount	106,338	77,226

An impairment loss of RMB8,063,000 was recognised in the income statement during the year to write down certain construction in progress items of the agricultural machinery segment to their recoverable amounts. The recoverable amount estimation was determined at fair value less cost to sell at the individual assets level, which was based on the best information available to reflect the amount that was obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

During the year, additional capital expenditure was incurred on certain suspended items of construction in progress to restore their intended use. The relevant impairment provision was reversed accordingly.

15. PREPAID LAND PREMIUMS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		
Carrying amount at 1 January				
As previously reported	**—**	—	—	—
Effect of adopting HKAS 17 (note 2.2(a))	**7,747**	7,608	**—**	—
As restated	**7,747**	7,608	**—**	—
Additions	**6,202**	342	**2,160**	—
Amortisation recognised during the year	**(188)**	(203)	**(68)**	—
Carrying amount at 31 December	**13,761**	7,747	**2,092**	—

The leasehold land is held under medium term leases and is situated in the PRC.

16. GOODWILL AND NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

Group	**Negative goodwill** *RMB'000*
31 December 2005	
At 1 January 2005:	
Cost as previously reported	2,344
Effect of adopting HKFRS 3 (note 2.2(c))	(2,344)
Cost as restated	—
Accumulated recognition as income as previously reported	586
Effect of adopting HKFRS 3 (note 2.2(c))	(586)
Accumulated recognition as income as stated	—
Net carrying amount	—
Cost and carrying amount at 1 January 2005 and 31 December 2005	—

16. GOODWILL AND NEGATIVE GOODWILL *(continued)*

Group	Negative goodwill *RMB'000*
31 December 2004	
At 1 January 2004:	
Cost	2,344
Accumulated recognition as income	(352)
Net carrying amount	1,992
Cost at 1 January 2004, net of accumulated recognition as income	1,992
Recognised as income during the year	(234)
At 31 December 2004	1,758
At 31 December 2004:	
Cost	2,344
Accumulated recognition as income	(586)
Net carrying amount	1,758

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provision of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of the SSAP 30 in 2001, was RMB39,844,000 as at 31 December 2004 and 31 December 2005. The amount of goodwill is stated at its cost.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted investments, at cost	**698,847**	696,747
Impairment	**(53,695)**	(53,695)
	645,152	643,052

The loans to subsidiaries included in the Company's current assets of RMB52,000,000 (2004: RMB62,000,000), which are granted in the form of designated deposits through a financial institution subsidiary of the Company, are unsecured, bear interest at ranging from 5.31% to 6.70% (2004: 5.22% to 5.58%) per annum and are repayable within one year.

The amounts due from and due to subsidiaries included in the Company's current assets and current liabilities of RMB129,530,000 (2004: RMB130,570,000) and RMB5,101,000 (2004: RMB29,214,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

Deposits in a subsidiary are deposits placed by the Company in a financial institution subsidiary, except for a six-month time deposits of RMB10 million placed therein which bears interest at 1.88% per annum, all other deposits placed therein bear interest at a rate of 0.72% per annum and are repayable on demand.

The trading balances with subsidiaries are included in notes 22 and 29 to the financial statements.

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

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registere share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Brilliance China Machinery Holdings Limited 華晨中國機械控股有限公司	Bermuda	US$12,000	90.1	—	Investment holding
Yituo (Luoyang) Construction Machinery Co., Ltd.+ 一拖(洛陽)工程機械有限公司	PRC	US$9,980,000	49	46	Manufacture and sale of construction machinery
Yituo (Luoyang) Building Machinery Co., Ltd. ("YBMC")+ 一拖(洛陽)建築機械有限公司	PRC	US$9,980,000	49	46	Manufacture and sale of road rollers and road construction machinery
Luoyang Changlun Agricultural Machinery Company Limited* # 洛陽長侖農業機械有限公司	PRC	RMB500,000	99	—	Trading of tractors
Yituo Shenyang Tractor Company Limited* # 一拖瀋陽拖拉機有限公司	PRC	RMB27,000,000	60	—	Manufacture and sale of tractors
Zhenjiang Huatong Aran Machinery Company Limited ("ZHAM")+ 鎮江華通阿倫機械有限公司	PRC	US$1,000,000	—	53.2	Manufacture and sale of road construction machinery

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Zhenjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM")+ 鎮江華晨華通路面機械有限公司	PRC	US$7,154,300	—	53.2	Manufacture and sale of road construction machinery
Yituo (Luoyang) Harvester Co., Ltd.* # 一拖(洛陽)收穫機械有限公司	PRC	RMB49,295,000	93.9	—	Manufacture and sale of agricultural harvesting machinery
Guizhou Zhenning Biological Industrial Co., Ltd.* # 貴州鎮寧生物工業有限公司	PRC	RMB16,000,000	70	—	Manufacture and sale of biochemical products
Luoyang Changhong High Technology Trading Company Limited* # 洛陽高新長宏工貿有限公司	PRC	RMB3,000,000	91.7	8.2	Trading of tractors
China First Tractor Group Finance Company Limited ("FTGF")* # 中國一拖集團財務有限責任公司	PRC	RMB500,000,000	87.8	6.6	Provision of financial services
Yituo (Luoyang) Building Construction Machinery Company Limited ("YLBC")* # - note (i) 一拖(洛陽)建工機械有限公司	PRC	RMB18,303,000	35	—	Manufacture and sale of road rollers

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yituo (Luoyang) Standard Components Company Limited ("YLSC")* # ~ 一拖(洛陽)標準零件有限公司	PRC	RMB8,000,000	65	—	Manufacture and sale of metallic components
Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST")* # - note (ii) 一拖(洛陽)神通工程機械有限公司	PRC	RMB13,000,000	50	—	Manufacture and sale of construction machinery
Yituo (Luoyang) Lutong Construction Machinery Company Limited ("YLLT")* # - note (iii) 一拖(洛陽)路通工程機械有限公司	PRC	RMB58,000,000	—	43.7	Manufacture and sale of construction machinery
Yituo (Luoyang) Construction Machinery Trading Co., Ltd.* # 一拖(洛陽)工程機械銷售有限公司	PRC	RMB8,000,000	40	46.3	Trading of road rollers and construction machinery
Luoyang Changxing Agricultural Machinery Company Limited* # 洛陽長興農業機械有限公司	PRC	RMB3,000,000	70	30	Trading of tractors
Yituo (Luoyang) Agricultural Machinery and Tools Co., Ltd.* # ◇ 一拖(洛陽)機具有限公司	PRC	RMB10,000,000	73	—	Manufacture and sale of agricultural machinery and tools

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

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

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

(iii) Certain individual shareholders in aggregate holding a 5% equity interest of YLLT conferred all their voting rights in the shareholders' meeting of YLLT to YBMC (a 95% - owned subsidiary of the Group which in turn owned a 46% equity interest in YLLT), such that YBMC can have 51% voting rights in the shareholdings' meeting of YLLT. Thus, the Group can exercise control over the financial and operating policies of YLLT.

* 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.

◊ A subsidiary newly incorporated during the year.

~ A subsidiary disposed of during the year.

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.

During the year, the Company disposed of its entire equity interest of 65% in YLSC. Further details of the disposal are included in note 36 to the financial statements.

18. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**122,760**	147,760
Share of net assets	**98,726**	141,888	**—**	—
Negative goodwill on acquisition	**—**	(4,243)	**—**	—
	98,726	137,645	**122,760**	147,760
Provision for impairment	**—**	—	**(42,000)**	(42,000)
	98,726	137,645	**80,760**	105,760

The Group's loan to and deposits from associates are disclosed in notes 20 and 31 to the financial statements, respectively.

The Group's other receivable and trade balances with associates are disclosed in notes 22, 24, 28 and 29 to the financial statements.

18. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Place of registration and operations	Percentage of ownership interest attributable to the Group Direct	Percentage of ownership interest attributable to the Group Indirect	Principal activities
Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") - note (i) 一拖(洛陽)柴油機有限公司	PRC	—	22.53	Manufacture and sale of diesel engines
Luoyang First Motors Company Limited ("LFMC") 洛陽福賽特汽車股份有限公司	PRC	29.5	—	Design, manufacture and sale of vehicles and related accessories
Yituo (Luoyang) Engine Machinery Company Limited ("YEMC")* - note (ii) 一拖(洛陽)動力機械有限公司	PRC	42	—	Manufacture and sale of engines and generators
Yituo (Luoyang) Casting & Forging Company Limited ("YLCF")* - note (iii) 一拖(洛陽)鑄鍛有限公司	PRC	25	—	Manufacture and sale of casting and forging products

18. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

Notes:

(i) The Holding holds a 75% equity interest in YLDC and the remaining 25% equity interest is held by a non-wholly-owned subsidiary of the Company.

(ii) YLDC held a 50% equity interest in YEMC, while the remaining 42% and 8% equity interests in YEMC are held by the Company and certain third parties, respectively.

(iii) The Holding holds a 50% equity interest in YLCF.

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

The table above lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

During the year, the Company disposed of its entire equity interest of 40% in First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. ("NCSIT"). Goodwill remaining in the consolidated reserves arising from the acquisition of the associate, NCSIT, amounted to RMB4,901,000 at both 1 January 2004 and 31 December 2004. The amount of goodwill is stated at cost at 31 December 2004.

18. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

The amount of negative goodwill from the acquisition of an associate, YLDC, is as follows:

Group

	Negative goodwill
	RMB'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	6,061
Effect of adopting HKFRS 3 (note 2.2(c))	(6,061)
Cost as restated	—
Accumulated recognition as income as previously reported	1,818
Effect of adopting HKFRS 3 (note 2.2(c))	(1,818)
Accumulated recognition as income as restated	—
Net carrying amount	—
Cost and carrying amount at 1 January 2005 and 31 December 2005	—

18. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

Group

	Negative goodwill *RMB'000*
31 December 2004	
At 1 January 2004:	
Cost	6,061
Accumulated recognition as income	(1,212)
Net carrying amount	4,849
Cost at 1 January 2004, net of accumulated recognition as income	4,849
Recognised as income during the year	(606)
At 31 December 2004	4,243
At 1 31 December 2004:	
Cost	6,061
Accumulated recognition as income	(1,818)
Net carrying amount	4,243

The Group has discontinued the recognition of its share of losses of Shanghai Qiangnong (Group) Company Limited (an associate) because the share of losses of such an associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB2,441,000 (2004:RMB16,582,000) and RMB35,147,000 (2004: RMB32,706,000) respectively.

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

18. INTERESTS/INVESTMENTS IN ASSOCIATES *(continued)*

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

	2005	2004
	RMB'000	*RMB'000*
Assets	**1,239,813**	1,129,617
Liabilities	**952,846**	749,975
Revenues	**1,247,737**	1,401,231
Loss	**(43,394)**	(23,758)

19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at fair value	**52,600**	69,917	**52,600**	67,903
Unlisted equity investments, at cost	**21,507**	—	**19,943**	—
Provision for impairment	**(2,123)**	(2,123)	**(2,123)**	(2,123)
	71,984	67,794	**70,420**	65,780

No gain on the Group's available-for-sale equity investments was recognised during the year (2004: Nil).

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

Certain unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

20. LOANS RECEIVABLE

Group - 2005	Notes	Gross amount RMB'000	Impairment allowances RMB'000	Net RMB'000
Loan to the Holding	(i)	252,800	2,528	250,272
Loan to associates	(ii)	86,900	3,368	83,532
Loans to related companies	(iii)	41,710	1,582	40,128
Loans to customers	(iv)	16,765	1,348	15,417
		398,175	8,826	389,349
Portion classified as current assets		(200,534)	(6,849)	(193,685)
Long term portion		197,641	1,977	195,664

Group - 2004	Notes	Gross amount RMB'000	Provisions RMB'000	Net RMB'000
Loan to the Holding	(i)	196,000	5,880	190,120
Loans to associates	(ii)	22,900	927	21,973
Loans to related companies	(iii)	15,750	2,443	13,307
Loans to customers	(iv)	78,890	1,614	77,276
		313,540	10,864	302,676
Portion classified as current assets		(101,337)	(4,411)	(96,926)
Long term portion		212,203	6,453	205,750

Notes:

(i) The loan to the Holding is granted by FTGF and is unsecured, interest-bearing at 5.76% (2004: 5.49% to 5.76%) per annum and repayable within one to two (2004: one to three) years.

(ii) The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 5.74% to 6.14% (2004: 5.84% to 6.14%) per annum. Except for the loan granted to LFMC (an associate) of RMB67 million which is repayable in 2007, all loans to associates are repayable within one year.

20. LOANS RECEIVABLE *(continued)*

(iii) The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein. These loans are unsecured, interest-bearing at rates ranging from 5.58% to 6.34% (2004: 5.49% to 6.26%) per annum and repayable within one year.

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

The movements of impairment allowances/provisions for loans receivable during the year are as follows:

	Group	
	2005	2004
	Impairment allowances	Provisions for loans receivable
	RMB'000	*RMB'000*
Balance at 1 January	**10,864**	10,216
New provisions charged to the income statement, net	**(2,038)**	648
Balance at 31 December	**8,826**	10,864

The maturity profile of the Group's loans receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Repayable:		
Within three months	**68,024**	24,200
Within one year but over three months	**132,510**	77,137
Within five years but over one year	**194,066**	206,643
Over five years	**3,575**	5,560
	398,175	313,540

The carrying amounts of the Group's loans receivable approximate to their fair values.

21. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**113,392**	148,682	**47,567**	61,962
Work in progress	**238,842**	257,934	**138,534**	168,012
Finished goods	**365,336**	423,850	**158,295**	109,482
Spare parts and consumables	**37,657**	34,644	**34,340**	29,920
	755,227	865,110	**378,736**	369,376

22. TRADE AND BILLS RECEIVABLES

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

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
				(Restated)
Within 90 days	**220,839**	314,146	**221,292**	203,173
91 days to 180 days	**107,639**	89,393	**55,189**	28,574
181 days to 365 days	**85,303**	59,185	**34,290**	4,818
1 to 2 years	**30,123**	27,151	**4,268**	1,971
Over 2 years	**4,737**	815	**—**	—
	448,641	490,690	**315,039**	238,536

22. TRADE AND BILLS RECEIVABLES *(continued)*

At 31 December 2005, certain of the Group's and the Company's bills receivable of RMB7,400,000 (2004: Nil) were pledged for the issuance of bills payable.

Included in the trade and bills receivables of the Group and the Company are trade receivables from the Holding of approximately RMB8,136,000 (2004: Nil) and RMB8,100,000 (2004: Nil), respectively.

Included in the trade and bills receivables of the Group and the Company are trade receivables from associates aggregating approximately RMB12,135,000 (2004: RMB1,901,000) and RMB10,687,000 (2004: RMB1,901,000), respectively.

Included in the trade and bills receivables of the Company are trade receivables from the subsidiaries of approximately RMB129,864,000 (2004: RMB44,927,000).

23. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB56,103,000 (2004: RMB53,064,000) related to the Holding; approximately RMB97,238,000 (2004: RMB26,265,000) related to an associate; and approximately RMB9,267,000 (2004: RMB3,425,000) related to related companies.

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

	Group	
	2005	2004
	RMB'000	*RMB'000*
Maturing within:		
Within three months	**105,697**	41,714
Within six months but over three months	**63,431**	91,604
	169,128	133,318
Less: Impairment allowance for bills discounted receivable	**(1,691)**	(1,333)
	167,437	131,985

23. BILLS DISCOUNTED RECEIVABLE *(continued)*

The movements of impairment allowance/provision for discounted bills receivable during the year are as follows:

	Group	
	2005	2004
	Impairment allowance	Provision for bills discounted receivable
	RMB'000	*RMB'000*
Balance at 1 January	**1,333**	1,570
New provisions charged to the income statement, net	**358**	(237)
Balance at 31 December	**1,691**	1,333

24. OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposits and other debtors	**217,632**	268,959	**117,073**	158,041
Due from the Holding (note 25)	**23,760**	—	**23,652**	—
Prepaid income tax	**2,986**	5,102	**—**	—
	244,378	274,061	**140,725**	158,041

24. OTHER RECEIVABLES *(continued)*

Notes:

(i) Included in other debtors is an amount of RMB20 million (2004: RMB42.72 million) (net of provision) due from the branch of a securities company which represents the overdue balance of a government bond investment to be repaid to the Company. Pursuant to a court judgement in September 2004, the securities company is required to repay the overdue balance of RMB42.72 million to the Company and a repayment schedule has been agreed between the Company and the securities company such that the securities company should repay the overdue balance to the Company by unequal instalments over 2 years commencing from 15 January 2005. The Company received the first settlement of RMB13,500,000 before the date of the approval of the financial statements for the year ended 31 December 2004, and no provision has been made for the remaining balance of RMB29.22 million in the financial statements for the year ended 31 December 2004. Thereafter, the securities company commenced its restructuring and since July 2005, it is under court order protection against the execution of any claim on it until January 2007. As a result the agreed repayment schedule for the remaining balance of RMB29.22 million was deferred. The directors are of the view that the Company should have valid legal claim on the outstanding balance and is able to recover such balance subsequent to the expiry of the court order. However, the directors consider it prudent to make an impairment allowance of RMB9,220,000 to cover for the overdue instalment at 31 December 2005.

(ii) Included in other debtors of the Group and the Company are other receivables due from associates totalling approximately RMB5,076,000 (2004: RMB12,905,000). Such balances are unsecured, interest-free and have no fixed term of repayments.

(iii) Included in other debtors of the Group are other receivables due from minority shareholders of subsidiaries of the Group of approximately RMB 22,703,000 (2004: RMB19,293,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

25. DUE FROM/TO THE HOLDING

The balances due from/to the Holding are interest-free, unsecured and have no fixed terms of repayment.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Listed equity securities, at market value:		
Hong Kong	**3,576**	7,203
Elsewhere	**—**	12,458
	3,576	19,661

The above equity investments at 31 December 2005 were classified as held for trading.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2005	2004	**2005**	2004
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances — note (i)		**416,883**	340,043	**205,154**	60,049
Mandatory reserve deposits in the PBOC - note (ii)		**38,362**	29,530	**—**	—
Time deposits		**208,308**	97,070	**77,391**	6,072
		663,553	466,643	**282,545**	66,121
Less: Pledged time deposits:					
Pledged for bills payable	28	**(105,570)**	(54,382)	**(58,391)**	—
Pledged for other banking facilities		**(15,554)**	(14,824)	**—**	(3,000)
Cash and cash equivalents		**542,429**	397,437	**224,154**	63,121

Notes:

(i) The balance included FTGF's placements with the PBOC and other banks of approximately RMB52,674,000 (2004: RMB71,285,000) and RMB136,689,000 (2004: RMB101,077,000), respectively.

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

The maturity profile of the Group's time deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Maturing within:		
Within three months	**139,308**	90,788
Within one year but over three months	**69,000**	6,282
	208,308	97,070

28. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**531,402**	432,112	**346,495**	224,947
91 days to 180 days	**225,677**	189,767	**148,743**	27,812
181 days to 365 days	**40,617**	77,545	**14,734**	19,191
1 to 2 years	**29,446**	19,636	**7,787**	7,829
Over 2 years	**16,846**	12,831	**8,692**	7,498
	843,988	731,891	**526,451**	287,277

The Group's bills payables amounting to approximately RMB211,375,000 (2004: RMB197,400,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB105,570,000 (2004: RMB54,382,000).

Included in the trade and bills payables of the Group are trade payables to the Holding of approximately RMB2,865,000 (2004: RMB2,639,000).

Included in the trade and bills payables of the Group and the Company are trade payables to associates totalling RMB8,113,000 (2004: RMB13,817,000) and RMB1,840,000 (2004: RMB10,913,000), respectively.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2005	2004	2005	2004
	Note	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Accruals and other liabilities		**365,400**	288,636	288,583	177,550
Due to the Holding	25	**22,823**	65,168	—	43,692
		388,223	353,804	288,583	221,242

Included in other liabilities of the Group are amounts due to the minority shareholders of subsidiaries of the Group of approximately RMB6,541,000 (2004: RMB2,679,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

Included in other liabilities of the Group and the Company is receipt in advance from an associate of approximately RMB3,772,000 (2004: Nil).

Included in other liabilities of the Company are receipts in advance from subsidiaries totalling RMB156,657,000 (2004: RMB48,416,000).

30. PROVISIONS

Group	**Early retirement benefits**	**Product warranties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	—	7,914	7,914
Additional provision	23,896	37,544	61,440
Amounts utilised during the year	(2,450)	(32,677)	(35,127)
At 31 December 2005	21,446	12,781	34,227
Portion classified as current liabilities	(4,004)	(12,781)	(16,785)
Non-current portion	17,442	—	17,442

30. PROVISIONS *(continued)*

Company	Early retirement benefits RMB'000	Product warranties RMB'000	Total RMB'000
At beginning of year	—	2,202	2,202
Additional provision	20,067	2,442	22,509
Amounts utilised during the year	(2,199)	(2,442)	(4,641)
At 31 December 2005	17,868	2,202	20,070
Portion classified as current liabilities	(3,327)	(2,202)	(5,529)
Non-current portion	14,541	—	14,541

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 38 to the 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 on an ongoing basis and is revised where appropriate.

31. CUSTOMER DEPOSITS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Deposits from the Holding	**69,525**	32,407
Deposits from associates	**75,859**	77,323
Deposits from related companies	**28,184**	18,557
Deposits from customers	**25,460**	91,420
	199,028	219,707

31. CUSTOMER DEPOSITS *(continued)*

The maturity profile of the Group's customer deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Repayable:		
On demand	**195,128**	176,907
Within three months	**—**	—
Within one year but over three months	**3,900**	42,800
	199,028	219,707

32. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group		Company	
			2005	2004	**2005**	2004
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current						
Bank loans:						
Secured	6.42 – 6.98	2006	**5,500**	24,000	**—**	—
Unsecured	4.80 – 6.70	2006	**166,750**	72,660	**93,590**	20,000
			172,250	96,660	**93,590**	20,000
Non-current						
Bank loans:						
Unsecured	4.80	2007	**1,000**	—	**—**	—
			173,250	96,660	**93,590**	20,000
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**172,250**	96,660	**93,590**	20,000
In the second year			**1,000**	—	**—**	—
			173,250	96,660	**93,590**	20,000

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

All of the above bank loans of the Group and the Company as at 31 December 2005 and 31 December 2004 are under fixed rate and in RMB.

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

(i) the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB18,806,000 (2004: RMB27,417,000) (note 13);

(ii) corporate guarantees provided by the Company and certain subsidiaries of the Group, including FTGF;

(iii) guarantees provided by the Holding and YLDC; and

(iv) guarantees provided by the holding company of the minority shareholder of ZHHRM.

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

33. DEFERRED TAX

Deferred tax liabilities

No deferred tax liabilities of the Group and the Company were recognised for the years ended 31 December 2005 and 2004. No deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

33. DEFERRED TAX *(continued)*

Deferred tax assets

Group and Company	2005 Losses available for offset against future taxable profit *RMB'000*	Early retirement benefits *RMB'000*	Total *RMB'000*
At 1 January 2005	—	—	—
Deferred tax credited to the income statement during the year (note 10)	22,339	5,896	28,235
Deferred tax assets at 31 December 2005	22,339	5,896	28,235

No deferred tax assets of the Group and the Company were recognised for the year ended 31 December 2004.

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

Group	**2005** ***RMB'000***	2004 *RMB'000*
Tax losses	**133,177**	226,885
Assets provision	**40,691**	21,191
Other deductible temporary differences	**45,764**	76,421
	219,632	324,497

Deferred tax assets have not been recognised in respect of these unused tax losses and other deductible temporary differences as they have arisen in companies that have been loss-making for some time and the recoverability of the deferred tax assets is uncertain. The unused tax losses will be available within five years in offsetting against future taxable profits of the companies in which the losses arose.

There were no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

	Company	
	2005	2004
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
State-owned legal person shares of RMB1.00 each	**450,000**	450,000
H shares of RMB1.00 each	**335,000**	335,000
	785,000	785,000

There was no movement in the share capital during the years ended 31 December 2005 and 2004.

35. 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.

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to appropriate 10% and 5% to 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") and a statutory public welfare fund (the "PWF"), respectively. No allocation to the SSR is required after the balance of the Company's SSR reaches 50% of its registered capital.

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

The PWF is used for the collective welfare of the staff and workers of the Company.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's certain subsidiaries, which are registered in the PRC, have been transferred to the reserve fund and enterprise expansion fund, which are restricted as to use.

35. RESERVES *(continued)*

(a) Group *(continued)*

During the year, the subsidiaries' aggregate appropriations to the SSR, the PWF and the reserve fund, as dealt with in the Group's financial statements, were RMB2,222,000 (2004: RMB3,112,000), RMB1,073,000 (2004: RMB29,000) and RMB127,000 (2004: RMB639,000), respectively.

The associates' appropriations to each of the SSR and the PWF during the year, as dealt with in the Group's financial statements were RMB1,047,000 and RMB524,000, respectively. For the year ended 31 December 2004, the associates' appropriations to each of the SSR, the PWF and the enterprise expansion fund during the year, as dealt with in the Group's financial statements were RMB786,000, RMB393,000, and RMB820,000, respectively.

Pursuant to the relevant PRC regulations, FTGF, being a non-bank financial institution subsidiary of the Group, is required to transfer a certain amount of its net profit, as determined based on the degree of overall unidentified loss exposure (normally not lower than 1% of the ending balance of risk assets by the end of 2009), to the general and statutory reserve through its profit appropriation.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated retained profits, as explained in note 16 to the financial statements.

(b) Company

	Share premium account	Statutory surplus reserve	Statutory public welfare fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	1,378,840	48,388	48,388	(288,150)	1,187,466
Net profit for the year	—	—	—	29,435	29,435
At 31 December 2004 and at 1 January 2005	1,378,840	48,388	48,388	(258,715)	1,216,901
Net profit for the year	—	—	—	91,181	91,181
At 31 December 2005	1,378,840	48,388	48,388	(167,534)	1,308,082

35. RESERVES *(continued)*

(b) Company *(continued)*

No transfer to the SSR and the PWF of the Company has been proposed by the directors during the year.

At the balance sheet date, the Company did not utilise any of the SSR or PWF.

As at 31 December 2005, the Company had no retained profits (2004: Nil) available for distribution by way of cash or in kind.

As at 31 December 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB1.38 billion (2004: RMB1.38 billion) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issues.

36. DISPOSAL OF A SUBSIDIARY

	Notes	2005 RMB'000	2004 RMB'000
Net assets disposed of:			
Property, plant and equipment		**7,087**	—
Construction in progress		**1,030**	—
Cash and bank balances		**2,097**	—
Trade and bills receivables		**4,400**	—
Prepayments, deposits and other debtors		**1,303**	—
Inventories		**14,111**	—
Interest-bearing bank borrowings		**(2,600)**	—
Trade and bills payables		**(18,871)**	—
Accruals and other liabilities		**(1,000)**	—
Minority interests		**(2,645)**	—
		4,912	—
Gain on disposal of a subsidiary	5, 6	**735**	—
		5,647	—
Satisfied by:			
Cash		**5,647**	—

36. DISPOSAL OF A SUBSIDIARY *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005	2004
	RMB'000	*RMB'000*
Cash consideration	**5,647**	—
Cash and bank balances disposed of	**(2,097)**	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**3,550**	—

The results of the subsidiary disposed of during the year have no significant impact on the Group's consolidated revenue or loss after tax for the year.

37. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

The non-cash capital contribution made by a minority shareholder of a subsidiary of the Group during the year ended 31 December 2005 was in the form of non-current assets valued at RMB2,000,000.

The non-cash capital contributions made by the minority shareholders of the subsidiaries of the Group during the year ended 31 December 2004 were in the form of non-current assets valued at RMB14,739,000, non-cash current assets valued at RMB34,593,000, and current liabilities of RMB21,019,000.

38. 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% to 24% (2004: 20% to 25%) of the payroll costs to the schemes, out of which the pensions of the Group's retired employees are paid.

(b) During the year, the Group implemented early retirement plans for certain employees in addition to the benefits under the government-regulated defined contribution schemes as disclosed in (a) above. The benefits of the early retirement plans are estimated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and with reference to certain historical salaries of such early retirees. The costs of early retirement benefits are recognised in the period when employees opted for early retirement.

39. CONTINGENT LIABILITIES

(a) As at 31 December 2005, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (2004: Nil) and RMB20 million (2004: Nil) to certain financial institutions for securing the loans granted to the Holding and YLDC, respectively. As at 31 December 2005, the aforesaid loans of the Holding and YLDC were drawn down to RMB100 million and RMB20 million, respectively.

(b) As at 31 December 2005, the Holding and FTGF, a subsidiary, had jointly given guarantee to the extent of RMB52 million (2004: RMB52 million) to a financial institution for securing the loans granted to Yituo (Luoyang) Fuel Jet Co. Ltd. ("YLFJ"), a subsidiary of the Holding. The aforesaid loans were drawn down to RMB52 million (2004: RMB52 million) as at 31 December 2005.

(c) As at 31 December 2005, ZHHRM, a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million to a bank for securing the loan granted to a customer of the Group.

(d) As at 31 December 2005, the Company had given corporate guarantees of approximately RMB319.2 million (2004: RMB248.7 million) and RMB122.9 million (2004: RMB201.4 million) to FTGF and certain banks, respectively, for securing credit facilities granted by FTGF and such banks to certain subsidiaries. The facilities were utilised to the extent of approximately RMB442.1 million (2004: RMB450.1 million).

The above contingent liabilities were not provided for in the Group's and the Company's financial statements. Save as aforesaid, neither the Group, nor the Company had any significant contingent liabilities.

40. PLEDGE OF ASSETS

Details of the Group's bills payable and bank loans, which are secured by assets of the Group, are included in notes 28 and 32 to the financial statements, respectively.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2005, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**5,390**	1,633
In the second to fifth years, inclusive	**13,707**	4,817
	19,097	6,450

(b) As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**6,453**	8,013	**6,000**	6,000
In the second to fifth years inclusive	**23,760**	27,985	**22,000**	23,000
After five years	**195,508**	200,858	**181,795**	186,795
	225,721	236,856	**209,795**	215,795

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Purchase of plant and machinery	**92,129**	102,386	**91,071**	95,822
Investment in joint venture	**50,880**	—	**50,880**	—
	143,009	102,386	**141,951**	95,822
Authorised, but not contracted for:				
Purchase of plant and machinery	**170,186**	174,871	**170,186**	173,041
Additional capital contribution into a subsidiary	**—**	—	**159,075**	159,075
Investments in joint ventures	**9,360**	7,550	**9,360**	7,300
	179,546	182,421	**338,621**	339,416
	322,555	284,807	**480,572**	435,238

43. RELATED PARTY TRANSACTIONS

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

The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the year are summarised as follows:

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Sales of raw materials, finished goods and components	(i)	**362,079**	314,533
Purchases of raw materials and components	(i)	**464,774**	502,539
Purchases of utilities	(ii)	**107,722**	127,059
Fees paid for welfare and support services	(iii)	**34,994**	20,542
Purchases of transportation services	(iii)	**19,537**	10,343
Research and development expenses paid	(iv)	**8,300**	6,149
Fees paid for the use of land	(v)	**5,000**	5,000
Fees paid for the use of trademark	(vi)	**8,300**	6,743
Rentals paid in respect of:			
Buildings	(vii)	**1,628**	1,263
Plant and machinery	(vii)	**4,371**	2,339
Rental income received in respect of:			
Buildings	(viii)	**1,380**	—
Plant and machinery	(viii)	**1,400**	4,274
Sales of plant and machinery	(ix)	**4,800**	13,062
Purchases of plant and machinery	(x)	**6,226**	2,911
Interest income, inclusive of discounted bill charges	(xi)	**27,257**	22,446
Interest paid for customer deposits	(xii)	**585**	707
Service charge for guarantee	(xiii)	**260**	—

The above transactions included the significant transactions carried out between the Group and its associates, YLDC (which is also a subsidiary of the Holding), YLCF (where the Holding holds a 50% equity interest) and YEMC (where YLDC holds a 50% interest).

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) Particulars of the significant transactions carried out between the Group and YLDC, YLCF and YEMC, during the year are summarised as follows:

	Notes	**2005** **RMB'000**	2004 RMB'000
Sales of raw materials and components	(i)	**173,010**	182,179
Purchases of raw materials and components	(i)	**190,812**	254,044
Rental income received in respect of:			
Buildings	(viii)	**1,380**	—
Plant and machinery	(viii)	**1,400**	4,274
Sales of plant and machinery	(ix)	**—**	11,397
Interest income, inclusive of discounted bill charges	(xi)	**4,973**	3,932
Interest paid for customer deposits	(xii)	**66**	109

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

	Notes	**2005** **RMB'000**	2004 RMB'000
Sales of raw materials and components	(i)	**8,772**	5,321
Purchases of raw material and components	(ii)	**1,651**	—
Interest paid for customer deposits	(xii)	**794**	1,925

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year, ZHHRM and ZHAM carried out various transactions with Jiangsu Huatong Machinery Co., Ltd. ("Jiangsu Huatong") (a minority shareholder of ZHHRM and ZHAM) and the holding company of Jiangsu Huatong. Particulars of these transactions are summarised as follows:

	Notes	**2005** **RMB'000**	2004 *RMB'000*
Sales of finished goods and components	(xiv)	**9,704**	800
Purchases of raw materials and components	(xiv)	**1,145**	1,651
Fees paid for the use of trademark	(xv)	**400**	400
Rentals paid in respect of:			
Plant and machinery	(xiv)	**—**	200
Land	(xiv)	**920**	920
Buildings	(xiv)	**125**	500
Fees paid for support services	(xiv)	**100**	100
Management fees paid	(xiv)	**200**	350

The significant transactions carried out between YLSC and its minority shareholder up to date of the Group's disposal of YLSC in 2005 are summarised as follows:

	Notes	**2005** **RMB'000**	2004 *RMB'000*
Sales of standard parts and components	(xiv)	**2,773**	5,260

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes:*

(i) Pursuant to relevant agreements, the pricing in respect of raw materials and components is determined by reference to the state price (i.e., the mandatory price set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such raw materials or components, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

(ii) Pursuant to relevant agreements, the pricing in respect of utilities is determined by reference to the state price (i.e., the mandatory price set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

(iii) 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 relevant PRC regulations, where applicable), or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower. Included in the welfare and supporting services fee during the year was an one-off staff children education expense of RMB36 million imposed by the local municipal government against the Holding, RMB18 million of which was recharged to the Company under the basis that such one-off expense is equally borne by the Company and the Holding.

(iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2004: 0.2%) of the Company's net annual turnover.

(v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million (2004: RMB5 million) subject to a further land rental adjustment announced by the relevant state land administration authorities.

(vi) Pursuant to relevant agreements, the pricing for the use of the trademark is charged at a rate of 0.2% (2004: 0.2%) of the Company's net annual turnover.

(vii) Pursuant to relevant agreements, the rental of buildings and plant and machinery is charged with reference to the depreciation of the relevant assets.

(viii) Pursuant to relevant agreements, the rental of plant and machinery is received mutually agreed with the related parties.

(ix) The sales of plant and machinery in 2005 were conducted under mutually agreed terms. The pricing of the sales of plant and machinery in 2004 was determined with reference to the net book value of the relevant assets.

43. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes:*

(x) The purchases of plant and machinery are conducted under mutually agreed terms.

(xi) The interest income related to the bills discounting service and loans granted by FTGF to the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC.

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

(xiii) The service charge for guarantee relates to the service charge paid by a subsidiary of the Holding for the guarantee provided by FTGF. Pursuant to the relevant agreement, the pricing of the service charge is approximately 0.5% to 1% of the guarantee amount with reference to the relevant service fee charged by other licensed financial institutions in the PRC. Details of the guarantee are set out in note 43(b)(ii) to the financial statements.

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

(xv) Pursuant to the relevant agreement, the annual fee paid for the use of trademark was RMB400,000 for the years from 2000 to 2005.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 31 December 2005, the Holding placed a designated deposit of RMB3.8 million (2004: RMB1 million) in FTGF for lending to YLCF.

As at 31 December 2005, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (2004: Nil) in FTGF for lending to a third party.

Since the credit risk is borne by the depositors, the related assets and liabilities of such transactions are not included in the Group's consolidated financial statements.

43. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Guarantees provided by the Group to related parties

As at 31 December 2005, FTGF provided guarantees to the extent of RMB100 million (2004: Nil) and RMB20 million (2004: Nil) to certain financial institutions for securing loans granted to the Holding and YLDC, respectively.

As at 31 December 2005, the Holding and FTGF jointly provided a guarantee to the extent of RMB52 million (2004: RMB52 million) to a financial institution for securing loans granted to YLFJ.

(iii) Guarantees provided by related parties to the Group

During the year, the Holding provided a guarantee to the extent of RMB100 million (2004: Nil) to a bank for securing the banking facilities granted to the Company. As at 31 December 2005, the aforesaid banking facilities were utilised to the extent of RMB30 million.

During the year, YLDC provided guarantee a to the extent of RMB20 million (2004: RMB20 million) to a bank for securing a loan granted to the Company. As at 31 December 2005, the aforesaid loan was utilised to the extent of RMB20 million (2004: RMB20 million).

As at 31 December 2004, Jiangsu Huatong provided guarantees up to RMB26 million to banks for securing loans granted to ZHHRM.

(iv) During the year, ZHHRM, Jiangsu Huatong and its holding company entered into a debt assignment arrangement, whereby Jiangsu Huatong took up the obligation payable to ZHHRM of approximately RMB20 million from its holding company.

(v) During the year, the Company disposed of its entire equity interest in YLSC to the Holding at a consideration of approximately RMB5.65 million. Further details of the disposal are included in note 36 to the financial statements.

43. RELATED PARTY TRANSACTIONS *(continued)*

(vi) On 3 March 2004, the Company entered into a promoter agreement with the Holding to establish Yituo (Luoyang) Dongfanghong Tyre Company Limited ("YLDT"). The registered capital of YLDT is RMB2 million, of which the percentages of equity interests in YLDT held by the Company and the Holding are 40% and 60%, respectively.

(vii) On 9 April 2004, the Company entered into a promoter agreement with the Holding and 46 other individuals to establish YLST. The registered capital of YLST is RMB13 million, of which the percentages of equity interests in YLST held by the Company, the Holding and 46 other individuals are 50%, 24% and 26%, respectively. The Holding conferred its 24% voting rights in the shareholders' meeting of YLST to the Company. Therefore, the Company can exercise control over the financial and operating policies of YLST.

(c) Outstanding balances with related parties

(i) Details of the Group's amount due from/to the Holding, its loans and deposits balances with the Holding as at the balance sheet date are disclosed in notes 25, 20, and 31 to the financial statements, respectively.

(ii) Details of the Group's loans to and deposits received from its associates as at the balance sheet date are included in note 20 and 31 to the financial statements, respectively..

(iii) Details of the Group's trade balances with its related parties as at the balance sheet date are disclosed in notes 22 and 28 to the financial statements.

(iv) Details of the Group's amounts due from/to the minority shareholders as at the balance sheet date are disclosed in notes 24 and 29 to the financial statements.

(d) Compensation of key management personnel of the Group

	2005	2004
	RMB'000	*RMB'000*
Short term employee benefits	**957**	903
Post-employment benefits	**230**	204
Total compensation paid to key management personnel	**1,187**	1,107

Further details of directors' emoluments are included in note 8 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise bank loans, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, loans receivables, bills discounted receivables, trade and bills payables and customer deposits, which arise directly from its operations, including the financial operation carried out by FTGF, a subsidiary of the Group.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, cash flow interest rate risk and liquidity risk. The board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and 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.

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 arose from the trade receivables of the Group and the lending activities of FTGF.

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

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

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

For the significant concentration of credit risk relates to the Group's loans receivable, please refer to note 20 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The carrying amount of the Group's financial assets which comprise pledged deposits, cash and cash equivalents, available-for-sale financial assets, and other receivables included in the balance sheet, represents the Group's maximum exposure to credit risk in relation to its financial assets, without taking into account of the fair value of any collateral.

Foreign currency risk

The business of the Group is principally located in the PRC. While most of the transactions are conducted in RMB, the Group does not have significant exposure on foreign currency risk. As at 31 December 2005, the Group has short term deposits denominated in United States dollars and Hong Kong Dollars of approximately RMB21,647,000 (2004: RMB17,536,000) and RMB47,456,000 (2004: RMB52,442,000), respectively. All the bank loans of the Group are denominated in RMB. The Group does not use derivative financial instruments to hedge its foreign currency risk.

Cash flow interest rate risk

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

FTGF monitored the interest rate risk on a regular basis and made appropriate arrangements to minimise the exposure. The Group does not use derivative financial instruments to hedge its interest rate risk.

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

	2005 **Rate** **% per annum**	2004 Rate % per annum
Assets		
Cash and cash equivalents	**0.72% – 2.48%**	0.72% – 1.98%
Loans receivable	**4.95% – 6.91%**	4.77% – 6.59%
Liabilities		
Customer deposits	**0.72% – 2.70%**	0.72% – 2.70%
Interest-bearing bank borrowings	**4.80% – 6.98%**	4.43% – 6.32%

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

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

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

45. POST BALANCE SHEET EVENT

In December 2005, the Company entered into a joint venture agreement whereby the Company injects capital of RMB50,880,000 in the form of cash and other assets into Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM"). After the aforesaid capital injection, the registered capital of YLTM will be increased to RMB55,880,000, of which RMB50,880,000 (constituting 91.05% thereof) will be attributed to the Company and RMB5,000,000 (constituting 8.95% thereof) will be attributable to the Holding and certain third parties. YLTM engages in the manufacture and sale of transportation machinery. Subsequent to the balance sheet date, the Company injected capital of RMB19.2 million in the form of cash into YLTM.

46. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs and the change in segment identification during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.