# FIRST TRACTOR COMPANY LIMITED
# 第一拖拉機股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 0038)

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

## FINANCIAL HIGHLIGHTS

| | | |
|---|---|---|
| **Turnover** | **:** | **RMB4,765,828,000** |
| **Net loss attributable to equity holders of the parent** | **:** | **RMB50,436,000** |
| **Loss per share attributable to ordinary equity holders of the parent** | **:** | **RMB6.42 cents** |

The board (the "Board") of directors (the "Directors") of First Tractor Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005, which have been prepared in accordance with the generally accepted accounting principles in Hong Kong, together with 2004 comparative figures, set out (unless otherwise stated, the figures contained in this announcement are denominated in Renminbi) as follows:

## CONSOLIDATED INCOME STATEMENT

For the 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 | 6 | **(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 | 7 | **(77,482)** | 23,813 |
| Tax | 8 | **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 | 9 | **—** | — |

| | Notes | | |
|---|---|---|---|
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 10 | | |
| 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 | | **785,143** | 781,073 |
| Construction in progress | | **151,620** | 106,338 |
| Prepaid land premiums | | **13,761** | 7,747 |
| Negative goodwill | | **—** | (1,758) |
| Interests in associates | | **98,726** | 137,645 |
| Available-for-sale equity investments/long term investments | | **71,984** | 67,794 |
| Loans receivable | | **195,664** | 205,750 |
| Deferred tax assets | | **28,235** | — |
| Total non-current assets | | **1,345,133** | 1,304,589 |
| CURRENT ASSETS | | | |
| Inventories | | **755,227** | 865,110 |
| Trade and bills receivables | 11 | **448,641** | 490,690 |
| Loans receivable | | **193,685** | 96,926 |
| Bills discounted receivable | | **167,437** | 131,985 |
| Other receivables | | **244,378** | 274,061 |
| Equity investments at fair value through profit or loss/short term investments | | **3,576** | 19,661 |
| Pledged deposits | | **121,124** | 69,206 |
| Cash and cash equivalents | | **542,429** | 397,437 |
| Total current assets | | **2,476,497** | 2,345,076 |

| | | | |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | **843,988** | 731,891 |
| Tax payable | | **5,459** | 2,913 |
| Other payables and accruals | | **388,223** | 353,804 |
| Customer deposits | | **199,028** | 219,707 |
| Interest-bearing bank borrowings | | **172,250** | 96,660 |
| Provisions | | **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 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | **1,000** | — |
| Provisions | | **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 | | **785,000** | 785,000 |
| Reserves | | **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 |

**NOTES:**

## 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.

## 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 methods of computation in the Group's financial statements.

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.

(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.

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 3 below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

## 3. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

| **At 1 January 2005**<br><br>**Effect of new policies (Increase/(decrease))** | **Effect of adopting**<br>**HKAS 17**<br>**Prepaid land premiums**<br>*RMB'000* | <br>**HKFRS 32# and 39***<br>**Change in classification of equity investments**<br>*RMB'000* | <br>**HKFRS 3***<br>**Derecognition of negative goodwill**<br>*RMB'000* | **Total**<br>*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 | | | | |
| Accumulated losses | — | — | 5,581 | 5,581 |
| Minority interests | — | — | 420 | 420 |
| | | | | 6,001 |

| At 31 December 2005<br><br>Effect of new policies<br>(Increase/(decrease)) | Effect of adopting<br>HKAS 17<br>Prepaid land premiums<br>*RMB'000* | <br>HKFRS 32# and 39*<br>Change in classification of equity investments<br>*RMB'000* | <br>HKFRS 3*<br>Derecognition of negative goodwill<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| Assets | | | | |
| Property, plant and equipment | (13,761) | — | — | (13,761) |
| Prepaid land premiums | 13,761 | — | — | 13,761 |
| Goodwill/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 | | | | |
| 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.

(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 | Effect of adopting HKFRS 3 Discontinuation of recognition of negative goodwill as income | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *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 | — | — | — |

**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 below. 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.

## 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 3, 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;

(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 table 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.

| | Agricultural machinery | | Construction machinery | | Financial operations | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* (Restated) | ***RMB'000*** | *RMB'000* (Restated) | ***RMB'000*** | *RMB'000* (Restated) | ***RMB'000*** | *RMB'000* (Restated) | ***RMB'000*** | *RMB'000* (Restated) | ***RMB'000*** | *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 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | **142,619** | 96,973 | **35,426** | 32,465 | **125** | 458 | **339** | – | **–** | – | **178,509** | 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 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) for 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:

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *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 | **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 | **—** | 234 |
| | **12,926** | 15,083 |
| | **103,523** | 114,027 |

## 6. FINANCE COSTS

| | **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 |

## 7. PROFIT/(LOSS) BEFORE TAX

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

| | **2005** | 2004 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Depreciation | **84,938** | 89,664 |
| Amortisation of prepaid land premiums | **188** | 203 |
| Impairment/(reversal of impairment) of construction in progress, net | **6,990** | (7,802) |
| Impairment/(reversal of impairment) of items of property, plant and equipment, net | **12,661** | (15,252) |
| Provision and write-off of bad and doubtful debts, net | **23,098** | 45,506 |
| Provision/(reversal of provision) for other receivable | **9,220** | (17,720) |
| Net charge for impairment losses and allowances/ provision for loans receivable | **(2,038)** | 648 |
| Net charge for impairment losses and allowances/ provision for bills discounted receivable | **358** | (237) |
| Interest expense from financial operations | **6,868** | 11,244 |
| Provision for 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, net | **1,444** | 1,837 |
| Gain on disposal of a subsidiary | **(735)** | — |
| Gain on disposal of an associate | **(11,000)** | — |
| 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 | **—** | (234) |

## 8. 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 | **(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 earned in or derived from Hong Kong during the two years ended 31 December 2005 and 2004.

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: RMB 4,710,000), 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.

## 9. DIVIDENDS

No interim dividend was paid during the year and previous year. The Board does not recommend the payment of any final dividend for the year (2004: Nil).

## 10. EARNINGS/(LOSS) PER SHARE

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.

## 11. 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.

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:

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 90 days | 220,839 | 314,146 |
| 91 days to 180 days | 107,639 | 89,393 |
| 181 days to 365 days | 85,303 | 59,185 |
| 1 to 2 years | 30,123 | 27,151 |
| Over 2 years | 4,737 | 815 |
| | 448,641 | 490,690 |

## 12. 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:

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 90 days | 531,402 | 432,112 |
| 91 days to 180 days | 225,677 | 189,767 |
| 181 days to 365 days | 40,617 | 77,545 |
| 1 to 2 years | 29,446 | 19,636 |
| Over 2 years | 16,846 | 12,831 |
| | 843,988 | 731,891 |

## 13. COMPARATIVE AMOUNTS

As further explained in notes 2 and 3 above, 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.

## 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.

— 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. 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.

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 company of 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.

— 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 "room for 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.

## 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 subsidiaries

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, grasp the opportunities and enlarge the product sales, in order to promote the operating results of 2006.

**THE GROUP'S TURNOVER BY BUSINESS CLASSIFICATION FOR 2004 - 2005**

| | Year Ended | | |
|---|---|---|---|
| | **31 December** | **31 December** | **Increase /** |
| **Classification by business** | **2005** | **2004** | **decrease** |
| | *RMB'000* | *RMB'000* | *(+/-)* |
| 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% |

**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) the effective results achieved because of 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 trade receivable and inventories of the Group decreased 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).

## 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 to secure 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 to secure 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 the notes to financial statements in the 2005 annual report.

## 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.

## 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.

## CHANGE IN SHAREHOLDING AND STRUCTURE OF EQUITY INTERESTS OF SHAREHOLDERS

As at 31 December 2005, the total issued shares (the "Shares") of the Company 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 (the "H Shares") listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") | **335,000,000** | 42.68 |
| Total number of Share | **785,000,000** | 100.00 |

## 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 of 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 interest | Number of Shares (Note 1) | Approximate percentage of the total issued share capital of the Company |
|---|---|---|---|
| China Yituo | Beneficial owner | 450,000,000(L) | 57.32% |

### H Shares

| Name of Shareholder | Nature of interest | 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 Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange as at the date of this announcement.

## 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).

## 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.

## DESIGNATED DEPOSIT AND DEPOSIT DUE

The Company deposited a sum of approximately 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 aforesiad deposits, the Company did not have any deposits deposited with any non-banking financial institution.

The Company granted loans of approximately 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.

# 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 Yituo (Luoyang) Standard Components Company Limited to China Yituo.

## 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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 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 the Corporate Governance Report in 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 shareholder structure; and (iii) large geographical coverage, the management and control 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.

## SECURITIES TRANSACTION BY DIRECTORS

Standards adopted by the Company regarding securities transactions by Directors are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rules. All Directors have complied with the Model Code in respect of securities transactions by Directors during the reporting period.

## 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. Chenzhi.

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.

By Order of the Board
**Liu Dagong**
*Chairman*

Luoyang, the PRC
21 April 2006

*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.*